ProMetic

# Closing the *gap*

PROMETIC LIFE SCIENCES INC. 2006 ANNUAL REPORT

# between *perception*



The Annual Shareholders Meeting of ProMetic will be held on 2 May 2007, at 10:30 a.m. at the Museum of Fine Arts, Montreal, Quebec.

# and *reality*

In 2006 a number of *important milestones* in the progress of ProMetic Life Sciences were reached. Remarkably positive *ongoing developments* are positioning ProMetic for near-term profitability. With *goals achieved* in the marketplace, the laboratory and in clinical trials, the projections for the year ahead are:

- Two of ProMetic's business units reaching a cash neutral position with possible revenues of $15 million;
- ProMetic's proprietary process for plasma fractionation to be licensed in Europe and Asia;
- ProMetic and its manufacturing partner MacoPharma as the first company in the world with a medical device on the market that can remove prions from human blood; and
- Potential value created in clinical trials by ProMetic's two lead drug candidates.

# catalysts for *growth*

- Proprietary technologies and *proven products*
- *World leader* in new plasma fractionation processes, biopharmaceutical purification, and pathogen removal
- A *pioneer* in strictly focused therapeutic advance in hematology and oncology

Pierre Laurin
President & CEO

In 2006, on each and every front where our scientists were engaged, ProMetic *moved forward impressively*. We enjoyed continued and *growing success* in relation to the *worldwide recognition* and application of our proprietary technologies. At the same time, meaningfully for the Company's future, our two lead therapeutic compounds made *significant progress* in their development process.

# Message to Shareholders

The year was distinguished by our methodical achievement of milestones, and the commercial fruition of past investments. In the marketplace ProMetic won contracts and entered agreements that should bring two of our business units to near term profitability and the promise of substantial forthcoming revenues. Years of rigorous development and patient investment have taken our business model to the point of major break-out growth.

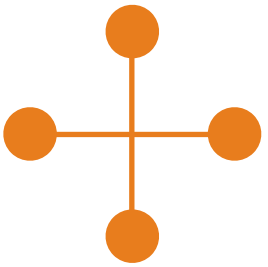
Organizationally, we delivered on the undertaking made late in 2005 to restructure the Company into distinct business units. We have systematically executed on those plans with clear benefit to operational efficiency and product focus.

Who would suspect, given all the foregoing, that ProMetic endured a difficult year? Yet 2006 was precisely that for your Company: a year in which we were distracted by litigation and held back by delay. As a consequence, notwithstanding the realized and inherent value in the Company, our share price remained low. The market reacted to the perception that ProMetic was entangled in potentially damaging circumstances relating (for a second year) to the insolvency of our partner Hemosol. Additionally, we endured a postponement in the introduction of our prion capture device in Europe.

Thus it is no exaggeration to say, with metaphorical accuracy, that in 2006 ProMetic navigated through a perfect storm. But we did so *while preserving our assets and consolidating our commercial position*. We began the autumn with a decisive victory in court with respect to the Hemosol matter. The judgement totally vindicated our position and affirmed our unfettered right to license our plasma technology to other North American partners for the production of hyperimmune products. At the same time, all obstacles to European regulatory approval for the P-Capt™ filter were definitively surmounted and the device was CE marked, representing a momentous milestone on the path to market launch.

The substance of our achievements was highlighted by the votes of confidence we received in 2006 from some of the most prominent institutional investors in the world. Institutional investors examine the foundation of a company, the value at its core – its catalysts for growth. With an investment in ProMetic, these investors endorsed the wisdom of our overall business strategy, our technology platforms, and most particularly the potential of our therapeutic program.

In many respects then, 2006 was a transition year for ProMetic, and ultimately a turnaround year. Investors saw us undergo adversity and emerge stronger from it. They now see a company that has been tested – and a management team seasoned – by crisis. Going forward we fully expect the market's sentiment to alter dramatically, as attention shifts from the setbacks in our past to the unfolding promise of our future.



HEAL

## ProMetic BioSciences Inc. ("PBI")
## *Therapeutics Unit*

PBI's two lead candidate drugs, both with distinct mechanisms of action, continued through their development process in 2006. They represent blockbuster potential in terms of near-term partnership value and long-term revenue generation.

During the year, PBI received regulatory authorization to begin a Phase Ib/II clinical trial of PBI-1402, a synthetic drug aimed at treating patients with anemia. We have since then begun enrollment of patients in Canada and Europe. The Company was granted regulatory approval by Health Canada for the expansion of our PBI-1402 clinical program to include the treatment of patients with anemia caused by chemotherapy and of anemic patients with Chronic Kidney Disease ("CKD") undergoing renal dialysis.

Nearly half of erythropoietin ("EPO") sales in the USA are for CKD patients. And it is estimated that as much as 60% of EPO use in CKD patients is for 10%-15% of CKD patients requiring a high dose of EPO to maintain their level of hemoglobin above 10g/liter of blood; below that level, a blood transfusion is required. The objective of this study is to evaluate the effects of PBI-1402 in patients with CKD who are on renal dialysis and treated with high doses of EPO. The trial is designed to monitor the safety and tolerability of PBI-1402 in this particular patient population and whether PBI-1402 has additive effects when combined with EPO.

Our compound for the potential treatment of various cancers, PBI-1393, has an excellent safety profile and is now proceeding with an offshore clinical trial in advanced cervical cancer. Importantly, PBI-1393 could qualify for orphan drug status in the U.S.

For both 1402 and 1393, our initial objective is to demonstrate safety and clinical efficacy in Phase II patients. A large number of pharmaceutical companies have taken in-depth interest in PBI-1402. If we achieve good indications of efficacy in the clinical trial, major partnering events will almost certainly ensue. It is our intention to partner the development of the drug, rather than sell it ourselves. And with the revenues we anticipate obtaining, we will finance development of other highly promising compounds in hematology and oncology that we have at the pre-clinical stage.

Recently, PBI-3941 was discovered; it is ProMetic's lead preclinical hematopoiesis compound. It targets neutropenia, a condition where white blood cell counts are lower than normal. In preclinical studies, PBI-3941 demonstrated an increase in neutrophil count, thus confirming that ProMetic scientists have identified a new class of compounds that can provide the discovery of many 'first in class' drugs for various hematological disorders. These potential drugs have the advantage of reduced cost in comparison with recombinant protein drugs currently on the market.

EXTRACT

## ProMetic BioTherapeutics, Inc. ("PBT")

### *Plasma Technologies*

The Plasma Protein Purification System ("PPPS") was originally developed in a co-venture between ProMetic and the American Red Cross. PBT owns an exclusive license to use the PPPS technology, as well as a license to manufacture and sell any products derived from the PPPS technology. In 2006, all of the assets of PPPS to manufacture therapeutics from plasma were consolidated into PBT. In addition, all scientists of the American Red Cross who were core to the project formally joined PBT. This was just one organizational milestone of the unit's new beginning. In line with our restructuring plans in July 2006, PBT also became a stand-alone corporation, headquartered in the U.S.

The subsidiary's inauguration as a U.S.-based company was made auspicious by two key events on the commercial side. First, PBT began a collaboration on protein recovery from plasma with Sartorius AG, a supplier to the biotech and mechatronics sectors. Then it signed an exclusive license agreement with Nabi Biopharmaceuticals ("Nabi").

The latter agreement provides Nabi with access to PBT's proprietary process technology to enable the large-scale manufacture of selected plasma-derived hyperimmune products (vaccines). Milestone payments over the next few years could reach US$18 million (if all product options are exercised). In addition, Nabi would pay PBT royalties on its product sales and also purchase affinity resins. This transaction was at the centre of the Hemosol-related court action mentioned above. In the court action, the Plan Purchaser of Hemosol claimed that any benefit from the Nabi transaction belonged to Hemosol, and that the Nabi-ProMetic transaction could not be legally implemented. In its decision, the Court rejected the Plan Purchaser of Hemosol's claim, and left no doubt as to ProMetic's right to market its proprietary technology in North America for the production of hyperimmune products.

PBT is in advanced discussions involving application of our PPPS technology with interested parties in Asia and the Middle East. We are confident that during 2007 we shall announce new licensing agreements. In North America, in the year ahead we expect a resolution of the Hemosol matter, ideally an outcome that resurrects the original transaction, but with a new partner, and provides a resumption of revenue generation.

Our alliance with Kedrion Biopharmaceuticals aims not only to manufacture vaccines using our technology, but also to co-venture with ProMetic in producing orphan drugs. So-called "orphan drugs" are not readily developed because they treat relatively obscure diseases and are only required by tiny patient populations. ProMetic's plasma technology has the unique ability to retrieve proteins that indicate therapeutic effect in relation to such diseases.

It's important to note that no substantial barriers to entry exist where orphan drugs are concerned, and they are afforded quicker treatment through the regulatory process. Additionally, orphan drug status gives the developing company seven years of product exclusivity in the U.S., as well as financial grants and tax credits.

PURIFY

## ProMetic BioSciences Ltd ("PBL")

*Bioseparations Unit*

As a result of major developments in 2006, and expected revenue growth in 2007, our subsidiary in the United Kingdom will likely be cash neutral by year end. Chief among its accomplishments was European regulatory approval for the P-Capt™ filter, a medical device developed by our Pathogen Removal and Diagnostic Technologies ("PRDT") initiative in a joint venture with the American Red Cross. Obtaining the CE Mark in Europe validated all of the effort we have put into the program. The device will almost certainly be commercially launched by our manufacturing partner MacoPharma in 2007.

The long-term benefit to ProMetic of the imminent P-Capt™ launch cannot be overstated. The filter efficiently removes the infectivity of all detectable blood-borne transmissible spongiform encephalopathy from whole blood. It is the only such filter in the world ready to be used. It represents a vital resource for blood supply organizations. Once this device is marketed to those agencies, PBL will benefit first from sale of its proprietary ligand technology that enables the filter to perform, and then from a royalty on each unit sold. The estimated global market being addressed exceeds US$500 million.

In 2006, PBL notably grew its core reputation as a specialist in the development and manufacture of affinity products used by life sciences companies to purify or remove target biomolecules. Adding to the impressive list of contracts and collaborations it has already entered into with some forty pharmaceutical companies around the world over the course of 2006 PBL signed agreements with Novozymes Delta and Novartis, while expanding an existing program with Octapharma. PBL also entered into a confidential program to investigate new means of using its technology with a major multinational. In the last month of the year, PBL won the biggest single order in its history ($3.9 million) when an existing multinational client ordered a very large quantity of PBL's proprietary Mimetic Ligand™ product.

Not surprisingly, we have postponed the plan we outlined last year for an Initial Public Offering of PBL stock on the London Stock Exchange. The IPO has been deferred for several important strategic reasons. Growth of projected revenues, a leading position with P-Capt™, as well as an upsurge of developments with prominent pharmaceutical companies, have at once removed any financial urgency and made it advantageous to bide our time. We believe that PBL could achieve a much higher valuation in 2007 or 2008. Accordingly, if and when PBL does an IPO, it will be on the basis of providing an optimal return to shareholders in ProMetic Life Sciences.

DETECT

## BSafE Innovations Inc.

## *ProMetic's Animal Care Initiative*

Although there is still no diagnostic available anywhere in the world that certifies live cattle as BSE (Bovine Spongiform Encephalopathy)-tested, we believe we hold a pole position in the development of that test because we are using proprietary technology that has been validated. Furthermore, we have brought to regulatory approval the first filter for humans proving our technology could remove over 99.9% of prions. We are a leader in the field of prion identification and removal; that is why we believe our search for a BSE diagnostic through our BSafE co-venture puts us at the head of the class. *BSafE's paramount role is to apply our successful and proven PRDT application to animals.* We believe that our technology can be combined with existing diagnostic technologies to further improve the level of detection.

It is still early days in our animal care initiative. We consider an ante-mortem test feasible, and we are determined to eventually achieve it. However, for the year ahead we believe we should concentrate our efforts on proving our expertise through demonstration of vastly improved post-mortem testing.

Since the age of biotechnology dawned and science began its march to the human genome, the question has often been asked: which companies will be more successful – those that discover revolutionary drugs, or those that provide the tools to enable the discoveries? (The question recalls the gold rush, when very few of the seekers found gold while the most secure parties were those supplying the picks and shovels!) At ProMetic, given the verticals we work in, we can claim both consistent security and the possibility of giant reward.

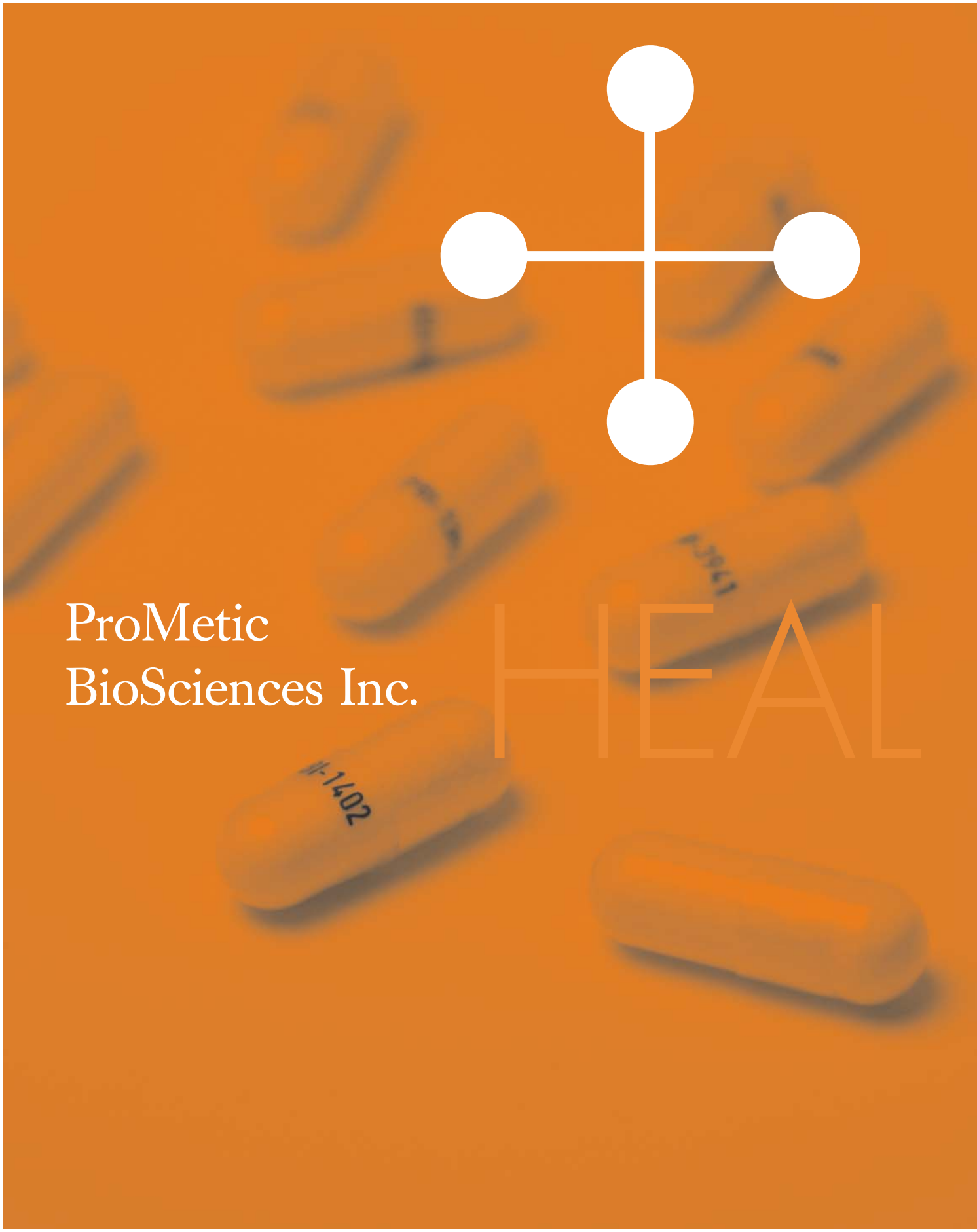
Our bioseparation and prion filter products, along with our plasma fractionation technology, put us solidly in the pick and shovel domain. (An update of the analogy would describe ProMetic's technologies as the "pentium chip inside" of a growing number of pharmaceuticals.) Meanwhile, the continuing progress through clinical trials of our therapeutic compounds represent our potential major gold strike. This business model is characterized by flexibility and offers multiple synergies. We believe it acts as an assurance of overall success, and that it will serve the best long term interests of our shareholders.

I wish to take this opportunity to thank you, ProMetic's shareholders, for your trust. We look ahead with complete confidence, not least because of your continuing support – and most especially because of the world-leading products that your support has made possible.

Permit me as well to salute here the talent and resolve that ProMetic's team members consistently bring to achieving the Company's objectives. Next year in this space, principally due to their dedication, we anticipate reporting further scientific advances and highly beneficial commercial developments.

(Signed Pierre Laurin)

Pierre Laurin
President & CEO


ProMetic
BioSciences Inc.
HEAL

# Addressing multi-billion dollar therapeutic markets

# Two lead compounds with the potential to create significant value

The Therapeutics Unit of the Company, ProMetic BioSciences Inc. ("PBI") has two development programs: hematology and oncology. Each program has a pipeline of promising compounds and each program has one lead candidate drug progressing through the clinical trial process. Both candidate drugs aim at satisfying unmet needs in huge patient populations. Both are first in class with distinct mechanisms of action. These innovative compounds, if they demonstrate the efficacy expected of them, represent blockbuster potential in terms of imminent partnership value and long term revenue generation.

PBI-1402 is an orally active drug for patients suffering from anemia. The current drug of choice for the treatment of anemia is erythropoietin (EPO). However, a significant number of patients do not respond well to EPO. Furthermore, relative to PBI-1402, EPO is an expensive drug. At this point, it appears that only one other orally active compound addressing the same condition is in clinical development. The market opportunity is immense. At present, worldwide sales of EPO is approaching US$15 billion.

PBI-1393 has demonstrated the ability, when tested on human cells, to stimulate cytotoxic T-lymphocytes which are white blood immune defense cells capable of destroying cancer cells. Chemotherapeutic drugs destroy immune cells in the human body and diminish the patient's anti-cancer defense mechanisms. PBI-1393 is an immunostimulant; it is designed to effectively counteract this adverse effect of chemotherapy and enhance the body's response to cancer. Adding to its advantages, PBI-1393 is relatively inexpensive. It is anticipated that this product can capture a significant share of the global adjuvant cancer therapy market which today is estimated to exceed US$16 billion annually.

# Key *developments*

- PBI-1402 Expansion of Cancer Trial Sites: The Phase Ib/II clinical trial of ProMetic's orally active drug targeting anemia in cancer patients undergoing chemotherapy was expanded to multiple sites in Canada and Europe, following initial delays in patient enrollment in Canada. The expansion was undertaken to make exceedingly likely the provision of efficacy results in 2007. Earlier animal studies demonstrated that PBI-1402 promotes the growth of red blood cell progenitors and also protects various tissues such as spleen and bone marrow from the toxic effects of chemotherapy. Many pharmaceutical and biopharmaceutical companies have followed the progress of PBI-1402 with ProMetic. They await the results of the Phase II trial with the intention of potentially co-partnering and financing, under a license agreement, the subsequent development of PBI-1402.

- PBI-1402 Clinical Program Expanded: Immediately subsequent to year end, the Company received regulatory approval from Health Canada for the expansion of the clinical program of its lead compound PBI-1402 to anemic patients with Chronic Kidney Disease (CKD). Designed to monitor the safety and tolerability of PBI-1402 and whether it has additive effects when combined with a high dose of EPO in this patient population, this clinical trial is being undertaken at the Maisonneuve-Rosemont Hospital in Montreal, Canada.

- PBI-1393 Offshore Phase Ib/II Clinical Trials: Toxicology studies of PBI-1393 in support of the off-shore clinical trial were recently completed. Analysis of the results showed the absence of the severe toxicity displayed by other immunostimulants and indicated a promising safety profile for the compound. The results supported the immediate preparation of an offshore clinical trial in advanced cervical cancer patients. This trial is designed to monitor the safety and tolerability of PBI-1393 and to give an indication of efficacy in 2007. Again, attention pertains to the development of this compound amongst multinational pharmaceutical companies that are eager to reinforce their pipelines by in-licensing promising drug candidates.

- PBI-3941 Treatment of neutropenia: This lead preclinical hematopoiesis compound targets a condition where neutrophil counts, a subset of white blood cells, are lower than normal. Preclinical studies have demonstrated an increase in neutrophil count, thus confirming that ProMetic scientists have identified a new class of compounds that can give rise to the discovery of many 'first in class' drugs for various hematological disorders. These potential drugs have the advantage of reduced cost in comparison with recombinant protein drugs currently on the market.

- PBI-1737 Induction of Tumor Regression: In a mouse xenograph model (engraftment of a human prostate cancer onto the animal), ProMetic's research compound PBI-1737, administered orally in combination with a standard cytotoxic drug, regressed the tumor. Currently, there is no drug available for the treatment of this particular (so-called androgen independent) prostate cancer.

# Catalysts for *growth*

- Distinct Mechanisms of Action Provide Advantage: All of PBI's work to date has served to confirm that PBI-1402 and PBI-1393 do not act at the same receptor level as the commercially available recombinant protein drugs – EPO and interleukin-2 – whose biological activity PBI-1402 and PBI-1393 respectively mimic. This is a critically important distinction in support of the clinical development strategies and partner-attracting potential of these compounds.

  PBI-1402 does not bind to the same cell surface receptor molecule as EPO and therefore may serve as a stand-alone therapeutic in the treatment of anemic patients, as a therapeutic for patients who are not responsive to EPO, or as a treatment in combination with EPO.

  PBI-1393's mechanism of action is linked to activation of cytotoxic T-lymphocytes (CTLs), which are cells that play a vital role in helping the human body fight off cancer. CTLs engender a process at the cellular level that effectively destroys cancerous cells – and thus potentially render PBI-1393 an important adjuvant to chemotherapeutic treatment.

- PBI-1402 Addresses a Vast Waiting Market: Amongst patients treated with chemotherapy every year, approximately 67% will develop anemia. Of this patient base, approximately 10% are treated with EPO and it is reported that as many as 35% - 40% will be resistant to the EPO treatment. Additionally, PBI-1402 may have the potential to treat anemia not associated with cancer or chemotherapy. This would represent an expanded market made more accessible since, unlike EPO, PBI-1402 is significantly less expensive and offers the convenience of oral administration.

- PBI-1402 Potential Efficacy for the Treatment of Anemia Associated with Chronic Kidney Disease: Nearly half of EPO sales in the U.S. are related to anemic patients with renal diseases. Furthermore, as much as 60% of EPO used in CKD patients is for 10%-15% of CKD patients requiring a high dose of EPO to treat their anemia. The combination of PBI-1402 and EPO in in vitro cell culture has already demonstrated an additive effect primarily on red blood cell progenitors in human bone marrow. The prospect of improving clinical outcomes with the combination – or of achieving a similar outcome with a lower dose of EPO – would represent a significant benefit for this patient population.

- PBI-1393 Potential Orphan Drug Status: Since it targets cervical cancer, PBI-1393 qualifies for orphan drug status in the United States. The procurement of such status would entitle ProMetic to seven years of product exclusivity as well as financial grants and tax credits. Orphan drug status enhances the attractiveness of a compound for potential partners and licensees. However, PBI-1393 is expected to be useful for the treatment of the many cancers responsive to stimulated CTLs. In addition to cervical cancer, they include metastatic melanoma, leukemia, colon, breast and pancreatic cancers.

- Pipeline Depth: ProMetic has discovered novel compounds to treat autoimmune diseases such as arthritis and psoriasis. Initial results in animal models are promising and these compounds are available for out-license to other companies. The Company has chosen to focus its development efforts in the field of hematology and cancer. With novel mechanisms of action, first in class compounds with demonstrated in vivo activities in standard animal models, our scientists are charting a course that over time aims to render ProMetic BioSciences Inc. an important player in the fight against cancer and hematological disorders.

## ProMetic BioSciences Inc.
Therapeutic Product Pipeline

| HEMATOPOIESIS | | |
|---|---|---|
| **Compound** | **Status** | **Therapeutic Indication** |
| PBI-1402 | Clinical Phase Ib/II | Anemia |
| PBI-3941 | Preclinical | Neutropenia |
| **CANCER** | | |
| **Compound** | **Status** | **Therapeutic Indication** |
| PBI-1393 | Clinical Phase Ib/II | CTL activation adjuvant to chemotherapy |
| PBI-1737 | Preclinical | Prostate Cancer |
| PBI-1668 | Preclinical | Breast and Lung Cancer |
| PBI-1308 | Preclinical | Acute Myelogenous Leukemia |

# ProMetic BioTherapeutics, Inc.

EXTRACT

# World Leader in Plasma Protein Fractionation Technology

# Total, More Efficient Extraction and Purification

Headquartered in the United States and proprietor of a unique, validated, state-of-the-art solution for plasma fractionation, our wholly owned subsidiary ProMetic BioTherapeutics, Inc. ("PBT") offers a compelling alternative to a legacy manufacturing process that has not been fundamentally improved in decades.

The advantages of PBT's protein extraction technology are being increasingly recognized worldwide. Manufacturers of a wide range of blood-derived products have begun to look to PBT to help them develop their pipelines with higher yields and fewer processing steps.

The revenue model of PBT exemplifies the synergies that exist within ProMetic. At the core of the Plasma Protein Purification System ("PPPS") is ProMetic's proprietary Mimetic Ligand™ technology – powerful affinity separation materials and processes that extract and purify biomolecules at very high yields. PBT generates revenue based on technical transfer fees and royalties, as well as upon the sale of resins manufactured by its sister unit, ProMetic BioSciences Ltd, at the latter's GMP-compliant facility in the United Kingdom.

# Key *developments*

- Organizational Milestone: The PPPS was originally developed in a co-venture between ProMetic and the American Red Cross. PBT owns an exclusive license to use the PPPS technology, as well as an exclusive license to manufacture and sell any products derived from the PPPS technology, and the right to sublicense to third parties those same rights. In 2006, all of the assets of PPPS to manufacture therapeutics from plasma were consolidated into PBT. The agreement encompassed the IT, facilities and equipment, as well as the human resources of the project. All of the scientists of the American Red Cross who played a part in the creation of PPPS are now resident scientists at ProMetic. This evolution represents a major milestone for the Company. As a U.S.-based, operationally independent and entrepreneurial subsidiary, PBT is now poised to enhance its penetration of the American and global markets, and better positioned to attract the attention of American capital.

- Precedent-Setting Transaction: Nabi Biopharmaceuticals is a manufacturer of high titer antibody plasma used as raw material for the manufacture of hyperimmune products. Based in Florida, it operates nine plasma collection centers and is recognized as one of the world's leaders in the field of blood-derived products. In 2006 Nabi signed an exclusive license and associated services agreements with PBT for the use of the Company's Mimetic Ligands™ in the manufacture of selected plasma-derived hyperimmune products. Nabi will use the technology to extract directly from hyperimmune plasma the hyperimmunes necessary to fight infections such as hepatitis C, or infections caused by staphylococcus. Under the separate services and supply agreements, ProMetic will provide technology transfer and support to Nabi, as well as the supply of resins required. Royalties will be paid upon product sales, and milestone payments over the next several years could reach US$18 million if Nabi develops and obtains licensure of all the products governed by its agreement with PBT.

- Overcoming Limitations in Bioseparation: PBT signed a far-reaching agreement with Sartorius AG, based in Germany. The Sartorius Group is one of the world's largest laboratory and process technology suppliers to the pharmaceutical industry. Sartorius will be a preferred supplier and technology provider to PBT's licensees for PPPS filtration equipment and consumables. The combination of PBT's fractionation technology and the integrated technology portfolio of Sartorius promises to assist manufacturers to overcome production bottlenecks and more quickly launch commercial-scale recovery of plasma-derived proteins.

- Victory in Court: In 2006 PBT convincingly turned back a legal challenge resulting from the insolvency of our former North American partner Hemosol. The Potential Purchaser of Hemosol had claimed an exclusive right to market PBT's fractionation technology in North America for the production of hyperimmune products. The judgement vindicated ProMetic's claims, left no doubt as to PBT's rights and, by extension, confirmed PBT's full entitlement to the transaction with Nabi Biopharmaceuticals.

# Catalysts for *growth*

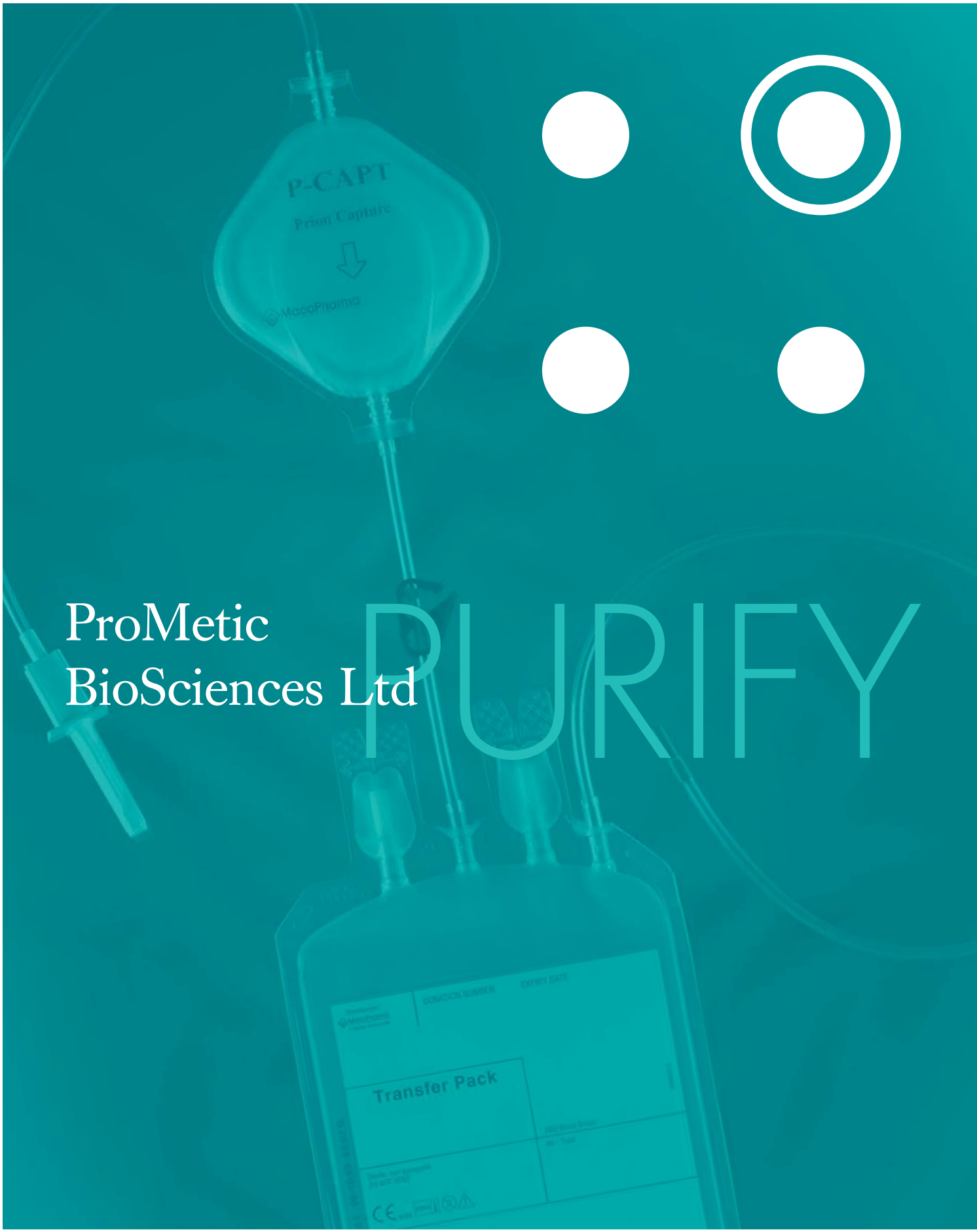
- Technology Platform for Developing Countries: The vast majority of countries lack their own plasma extraction and purification facilities. Large developing countries such as China and India are now seriously examining their need to establish such facilities, and PBT's technology is a clear frontrunner option. We have a memorandum of understanding on a license agreement in China, discussions are advancing in India, and we have a potential client in the Middle East.

- Short and Long Term Revenues: PBT's business plan is predicated on generating short term revenues from licensees for the Company's hyper-immune and PPPS technologies in both North America and Europe. Longer term revenues are expected to derive from a combination of royalties on resin sales in the developed countries, and a continuous ramping up of technology sales to developing countries.

- Projected Break-Even in 2007: The important agreement with Nabi Biopharmaceuticals has provided a template for PBT's revenue generation going forward. PBT has realistic short-term expectations of closing similar transactions with additional companies in other countries. Negotiations are at an advanced stage, in Europe for use of PPPS technology. In the midst of discussions with different parties, PBT is facilitating the recognition and pursuit of synergies between these parties and our American licensee Nabi.

- Opportunity in Orphan Drugs: Orphan drugs treat uncommon diseases, as outlined in the U.S. Orphan Drug Act. An uncommon disease is defined as one that afflicts fewer than 200,000 Americans. So-called "fast-track approval" guidelines set out by the FDA are designed to encourage the development of therapeutics for these diseases, and to bring them as quickly as possible to market. Experience has shown, for companies such as Genzyme, that although patient populations are small the revenue from orphan drugs can be immense. High value plasma proteins have long served as therapeutics for a wide variety of disorders. One of the latent and most promising aspects of PPPS technology is its ability to recover additional new proteins that could treat uncommon diseases and thus benefit from orphan drug status. The existing legacy fractionation technology (i.e., the Cohn process) cannot effectively extract these proteins. PPPS represents a powerful platform for use by PBT, which intends to initiate development of its own internal proprietary products with non-dilutive sources of funding (such as government sources and patient groups). PBT aims to bring at least one candidate protein therapeutic project forward in 2007. Additionally, the platform can be exploited in collaboration with multiple potential partners in big Pharma aiming to rapidly advance protein-derived pharmaceuticals to market.

- Resolution of the Hemosol License: The North American continent effectively remains a major untapped opportunity for PBT. As a result of the Hemosol bankruptcy two years ago, our ability to exploit PPPS technology in the United States and Canada has been constrained, since the Hemosol license has been held in legal abeyance. We have every confidence that the Hemosol matter will be resolved in the near future. We will then seek interaction with the new license holder on a technical level and product development level. The value of the process under license has only grown. The onetime setback embodied in the Hemosol insolvency promises to be remembered as a temporary detour to PBT's North American success.




# ProMetic BioSciences Ltd

PURIFY

# Technology Supplier to Drug Companies Around the World

# Launching a Vital Tool to Safeguard the Human Blood Supply

Our subsidiary ProMetic BioSciences Ltd ("PBL") headquartered in the United Kingdom, markets patented technology in two important and rapidly growing sectors of the life sciences industry.

Over forty leading companies in the pharmaceutical and biotech sectors have purchased PBL's innovative bioseparation materials, which are based on the Company's proprietary Mimetic Ligand™ technology. PBL's clients use its affinity ligand technology to cost-effectively purify bio-molecules. This allows them to enhance the commercial feasibility of compounds they have under study, and increase the yield of therapeutics they have in production.

PBL is also preparing for the launch of an essential device for blood supply organizations. The revolutionary P-Capt™ filter, conceived through ProMetic's Pathogen Removal and Diagnostic Technologies ("PRDT") joint venture with the American Red Cross and further developed with co-development, manufacturing and marketing partner MacoPharma, is a first generation prion reduction filter. The device can at last equip blood service agencies around the world with the means of significantly reducing the risk of vCJD infection by blood transfusion.

# Key *developments*

**Corporate, Regulatory, Financial**

- In 2006 the Company inaugurated use of its expanded manufacturing infrastructure on the Isle of Man, enabling PBL to supply its growing number of clients and licensees.
- PRDT's partner, MacoPharma, received CE Mark regulatory approval for the P-Capt™ filter, substantiating full conformity with all essential requirements of the European Medical Device Directive EC 93/42 and confirming the performance of the device.
- The intention to conduct an Initial Public Offering for PBL was postponed in light of superior revenue forecasts, substantial progress in various projects, break-even projected in 2007, and anticipation of a much higher valuation at a later date.
- At year end 2006, with a strengthened management team and major orders in hand, PBL looks ahead to growth and projected break-even operations in 2007.

**Transactions and Agreements**

- With Novartis: Purifying a new protein vaccine
  Novartis, one of the world's largest and most prestigious multinational pharmaceutical companies, is developing a new protein vaccine. Like all recombinant protein products, this vaccine requires purification. A number of different technologies are available to purify proteins. Given the projected scale of production and the stringent requirements for purity (vaccines are therapeutic products administered to people who are not actually sick, so side effects must be minimal), PBL was selected by Novartis from a wide variety of potential suppliers as its partner of choice for implementation of this purification procedure.

- With Octapharma: Purifying a new recombinant protein
  Octapharma, a Swiss-based globally active plasma fractionation specialist, engaged PBL to provide scale-up quantities of a Mimetic Ligand™ affinity adsorbent. The new adsorbent, selected by Octapharma for its new recombinant protein product, was developed using PBL's unique Chemical Combinatorial Library® technology. The agreement calls for the production of multiple batches of adsorbent, involves clean-room manufacture by PBL to ISO 9001: 2000 standard, as well as project management and extensive regulatory support – and represents another major endorsement of PBL's expertise.

- With Novozymes Delta: Purifying recombinant human serum albumin
  Novozymes Delta, a UK-based producer of recombinant protein products, selected PBL as a provider of purification technology for the manufacture of Recombumin®. This product, used as a high qualilty protein excipient, is the first commercially available recombinant human albumin approved for use in connection with therapeutic products. The transaction involves long-term supply by PBL of two synthetic-ligand affinity adsorbents, which enable production of a very high purity product which has passed the most stringent regulatory hurdles.

- With a giant multinational: Research agreement
  PBL has entered an agreement to investigate new ways of applying its technology with a big Pharma multinational, the name of which cannot be published at this stage for reasons of confidentiality. The collaborative research will focus on the development of new approaches to the purification of biological products.

- With MacoPharma: License agreement
  MacoPharma, based in France, is one of the world's largest manufacturers of human blood collection kits and blood filtration systems. It has co-sponsored PRDT's infectivity studies and has partnered with PRDT in the development of the P-Capt™ filter. In 2006, PRDT signed a definitive license agreement with MacoPharma, granting it the exclusive sale and distribution rights for the P-Capt™ filter within Europe, in addition to an exclusive worldwide manufacturing license. Contracts governing the supply of the prion binding adsorbent by PBL to MacoPharma were also completed.

# Catalysts for *growth*

- Purification Technology
  PBL's proprietary Mimetic Ligand™ purification platform has made the company an established global player in the pharmaceutical and biopharmaceutical sectors. Affinity adsorbents are crucial to the commercial manufacture of therapeutic proteins. PBL's innovative purification technology provides major advantages. It can be applied to almost any target protein given the extensive chemical diversity of PBL's ligand libraries; it can capture targeted proteins directly from the source; and it can help separate nearly identical proteins to achieve high levels of purity. The result for PBL's clients includes higher yields and the ability to reduce purification costs by up to half. This core bioseparation technology of PBL, used by some forty companies in the life sciences industry, and increasingly recognized as the purification solution of first choice, is steadily widening its appeal in a market of over US$700 million which is growing by an estimated ten to fifteen percent annually. In addition, PBL is working upon improved methods for the purification of anti-bodies, specifically monoclonal anti-bodies. It has two such products under development, with one anticipated for market launch in mid-2007.

- Protecting the Human Blood Supply
  TSEs (transmissible spongiform encephalopathies) are fatal brain diseases that include Bovine Spongiform Encephalopathy (BSE) or "mad cow disease" in cattle and Creutzfeldt-Jakob Disease (vCJD) in humans. The latter infection (which cannot be detected with a diagnostic test) is among the greatest emerging risks for the blood supply and represents a prime target of ProMetic's scientists in the PRDT initiative. PRDT's first infectivity study established that selected affinity resins are capable of removing very high concentrations of TSE infectivity, far in excess of concentrations that have so far been detected in blood. The resins were challenged with almost 2,000,000-fold greater TSE infectivity than that estimated to be present in a unit of TSE-infected red blood cells, thus demonstrating vast excess adsorbing capacity. In 2006, the results of PRDT's second major study were announced. This endogenous (blood-borne) infectivity study demonstrated that PRDT's lead resin – namely the resin that is incorporated into the prion filter device, P-Capt™ – also adsorbs and removes the specific form of TSE infectivity that is found at very low concentration. Findings were presented at the 10th Annual TSE Conference and published in *Transfusion*, the journal of the American Association of Blood Banks. Later in the year, the prestigious *The Lancet* reported that PRDT's resin was shown to remove, to the limit of detection, the infectivity that is naturally present in blood during infections by TSEs and to significantly reduce the risk of transmission of infection by contaminated blood. All of the study data and reports on the performance of PRDT's resin represent a major resource for achieving eventual wide acceptance of the P-Capt™ device, which is a ready-for-use prion filter for blood transfusions. Globally, approximately forty million units of blood are collected every year, affording PBL and its partner an enormous market opportunity.

- PRDT Technology: Next-Generation Value Drivers
  The use of the P-Capt™ filter will likely trigger a new era of product development. The product promises to be just the initial device of a family of devices. The blood supply agencies of the world are seeking technology that will reduce or remove viruses such as hepatitis and HIV from donated blood. PRDT's science has demonstrated its potential to address these vast markets that no company in the world is yet tapping.


BSafE
Innovations Inc.
DETECT

# The BSafE Initiative

- Applying proven PRDT expertise
- Enhancing current screening for Mad Cow Disease
- Leading in the search for an ante-mortem BSE diagnostic
- Working to enhance the safety of the food chain

Twenty years ago, bovine spongiform encephalopathy (BSE), more commonly known as Mad Cow Disease, was identified in England. Since then, hundreds of thousands of cattle have been infected in that country. Several thousand more cases have been reported in other European countries, and the disease has emerged in North America and Japan. Caused by abnormal prions (infectious proteins) concentrating in the brain and spinal cord of diseased cows, BSE is invariably terminal – all infected cattle must be destroyed.

The presence of BSE in the human food chain cannot be tolerated. Since the BSE agent has been strongly associated with precipitating Variant Creutzfeldt-Jakob Disease (vCJD), a fatal human neuro-degenerative condition, the potentially catastrophic effects of an outbreak of Mad Cow Disease upon the meat-growing industry anywhere in the world are easy to understand. Precedent has shown that the discovery of even one infected animal leads to the slaughter of whole herds.

A major commercial opportunity exists within this context, and ProMetic is uniquely positioned to address it.

The meat growing industry would very highly value a cost-efficient diagnostic that certifies live cattle as BSE-tested, but no such diagnostic yet exists. At ProMetic we are paving the way to its achievement with our BSafE initiative. We believe that we have a leading position due to the research and validated performance of our Pathogen Removal and Diagnostic Technologies (PRDT), the veterinary applications of which have been in-licensed by BSafE. At present, BSafE's scientists are working toward the ultimate goal of the diagnostic by achieving intermediate steps designed to enhance the sensitivity and specificity of already existing BSE screening tests.

Formally constituted in 2006 as BSafE Innovations Inc. with headquarters in Alberta, this initiative in the veterinary field is a joint venture with Top Meadow Life Sciences Inc., a subsidiary of Top Meadow Farms. The Top Meadow group plays a large role in the cattle and beef industry with expertise in breeding, feeding and marketing. Top Meadow is facilitating contact with potential users of the technology in the meat industry.

**Using a proven technology:**
PRDT's science, which constitutes a critical element of the revolutionary P-Capt™ human prion blood filter that has been approved for use in Europe and which will be launched commercially by MacoPharma in 2007, has helped make ProMetic a clear leader in prion identification and removal in reference to human blood products.

The platform technology which made P-Capt™ possible is also behind the BSafE initiative, which targets the bovine form of prions. The PRDT scientists who worked on the P-Capt™ enabling technology are also spearheading the BSafE research.

The challenging task achieved by our scientists for the P-Capt™ filter was to capture over 99.9% of prions in blood. For the purpose of detection, however, there is no need to capture the same percentage of prions. Whereas a 90% capture rate would be insufficient and untenable in a removal device, the same rate of prion capture from a test sample would represent the equivalent of a 100-fold increase in the "signal to noise" ratio.

The P-Capt™ filter for human blood relies on ligands with affinity to human prions. The objective now being addressed by our scientists in the case of BSafE is the development of ligands that will display high affinity to the bovine form of prions.

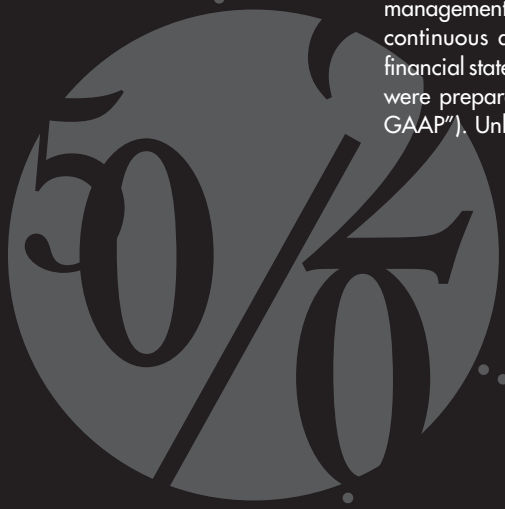
Our goal is to initially introduce first generation devices that when combined with current testing procedures provide for enhanced sensitivity and detection. This strategic step-by-step approach serves many purposes, including firmly establishing BSafE as a leader in the marketplace. Our development will then aim at fulfilling the ultimate objective of the technology with a second generation device, namely an ante-mortem test to certify live cattle as BSE-tested.

**First Generation:**
As this Annual Report goes to press, we are embarked on a series of experiments to replicate and validate our findings, and confirm them for commercial use. Our first generation device aims at amplifying the signal by concentrating bovine prions from brain tissue, and increasing the sensitivity of existing tests by significant orders of magnitude. This in turn would enable the detection of Mad Cow Disease in much younger animals and at much earlier stages. The potential benefit of such technology to the beef industry cannot be over-emphasized, yet it is only the first stage of BSafE's long-term vision.

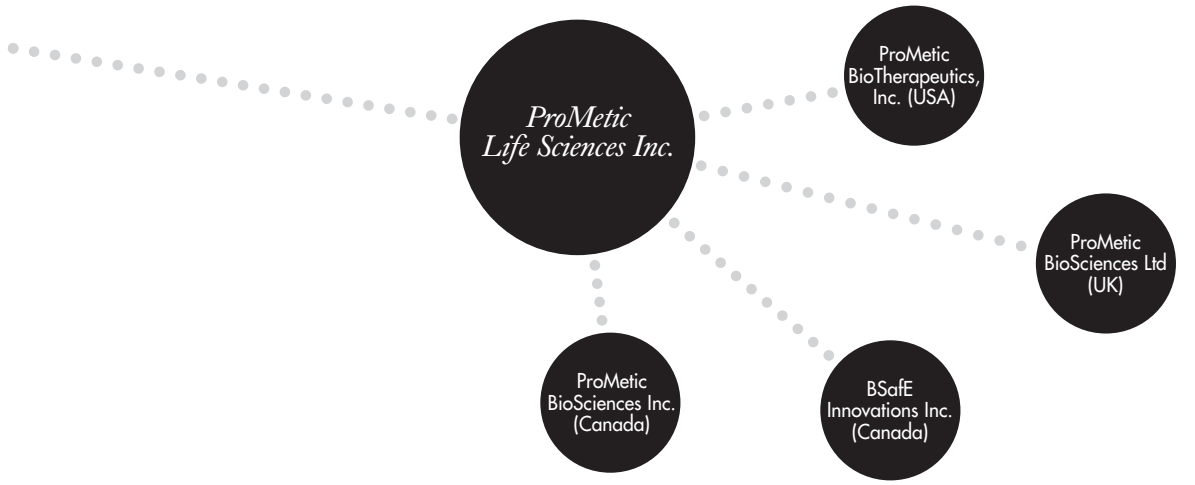

**Second Generation:**
The already demonstrated accomplishments of our science point the way to the means of detecting Mad Cow Disease from a simple blood sample. With our proven technology and our team of scientists in place, we are geared to achieve an ante-mortem diagnostic that could be used by herd owners and government regulatory agencies worldwide.

# MD&A

The Management's Discussion and Analysis of Operating Results and Financial Position, prepared February 23, 2007, aims at helping the reader to better understand the business of the Company and the key elements of its financial results. It explains the trends of the financial situation and the operating results of the Company for the 2006 financial year compared to the 2005 operating results. This management's discussion and analysis was prepared in accordance with Regulation 51-102 respecting continuous disclosure obligations and should be read in conjunction with the 2006 consolidated financial statements and the accompanying notes included in this annual report. These financial statements were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Unless otherwise indicated, all figures are expressed in Canadian dollars.



**ProMetic Life Sciences Inc. ("ProMetic")** is a globally active biopharmaceutical company with four distinct business units. **ProMetic BioSciences Inc. ("PBI")** is developing therapeutics to treat cancer and autoimmune diseases. **ProMetic BioTherapeutics, Inc. ("PBT")** has developed and is now marketing large-scale drug purification technologies. **ProMetic BioSciences Ltd ("PBL")** is involved in bioseparation enabling technologies and pathogen removal devices. ProMetic has also entered into a joint venture related to a major initiative in the field of animal care, under the name of **BSafE Innovations Inc.**, which is working to enhance the sensitivity of screening tests for "Mad Cow" disease.




**ProMetic BioSciences Inc.**

Based in Montreal, Canada, the therapeutic development arm of ProMetic has two lead compounds progressing in clinical trials, both of which address unmet needs of cancer patients undergoing chemotherapy. PBI-1402 is an orally active therapeutic for patients suffering from anemia either induced by chemotherapy or associated with chronic renal disease. PBI-1393 is an immunostimulant, designed to counteract the adverse effects of chemotherapy and enhance the body's response to cancer. Since it targets cervical cancer, PBI-1393 would qualify for orphan drug status in the United States. In its discovery pipeline the therapeutics unit has a compound, PBI-3941 which based on animal work, may be promising for the treatment of neutropenia. As well, it is developing new compounds, which have demonstrated activity in standard animal models, to treat cancer and autoimmune diseases such as arthritis and psoriasis activity in standard animal models.

**ProMetic BioTherapeutics, Inc.**

This subsidiary is headquartered in the state of Maryland in the U.S. It is the developer of a unique, validated, state-of-the-art solution for plasma fractionation, the Plasma Protein Purification System ("PPPS"). The system offers an alternative to the legacy manufacturing process (the Cohn Process); it removes therapeutic proteins from plasma with a process that very significantly enhances the recovery yield. PPPS was originally developed in a co-venture between ProMetic and the American Red Cross. PBT owns an exclusive license to use the PPPS technology, as well as a license to manufacture and sell any products derived from the PPPS technology, and the right to sublicense to third parties those same rights. Manufacturers of a wide range of blood-derived products have begun to look to PBT to help them develop their pipelines with higher yields and fewer processing steps.

**ProMetic BioSciences Ltd**

PBL, headquartered in the United Kingdom, with R&D facilities in Cambridge and manufacturing capacity on the Isle of Man, is a technology supplier to drug companies. It develops and markets bioseparation products based on applications of its patented Mimetic Ligand™ technology. PBL will also be playing an important role in the manufacturing process with its partner MacoPharma, for a prion reduction filter device for blood supply organizations known as the P-Capt™ which has earned European regulatory approval (CE Mark). The prion reduction technology for the device was originally developed in a co-venture between ProMetic and the American Red Cross under the name Pathogen Removal and Diagnostics Technologies ("PRDT").

**BSafE Innovations Inc.**

This initiative in the veterinary field is headquartered in Alberta. It is a joint venture with Top Meadow Life Sciences Inc. BSafE has in-licensed the veterinary applications of ProMetic's PRDT. The long term goal of BSafE is to use the validated PRDT technology for prion reduction in the search for a diagnostic that would certify live cattle as BSE-tested. Short term, BSafE's scientists are working to enhance the sensitivity of already existing BSE screening tests. The Top Meadow group plays a role in the cattle industry with expertise in breeding, feeding and marketing, and is facilitating contact with potential users of BSafE technology in the meat industry.

# Significant Events

The following events took place during the calendar year 2006 and subsequent to year end until the date of the writing of this MD&A:

**ProMetic Life Sciences Inc. (Corporate)**

- ProMetic completed the second of two tranches of a US$8.9 million convertible debt financing. In total ProMetic issued secured convertible notes in the aggregate principal amount of approximately US$11.2 million and warrants to purchase up to 20,507,379 Subordinate Voting Shares, for gross proceeds of US$8.9 million.
- Two shareholder rights plans were adopted in March.
- In May, all of the issued and outstanding multiple voting shares of the Company were exchanged for subordinate voting shares; the shareholder rights plans adopted in March came into effect.
- In June, a private placement for $10.8 million was closed with JP Morgan and Third Point LLC.
- In November, approval was obtained from the Autorité des Marché financiers for the use of a CDN$42 million short form base shelf prospectus with the securities regulators in each Canadian province.
- In December, ProMetic secured a non-convertible debt facility in the amount of $11.6 million with a U.S. based financial institution, the proceeds of which were used to reimburse the convertible note contracted in December of 2005, with a residual amount of $3.2 million to be used for general corporate purposes.
- In December, two tranches of financing closed involving prominent U.S. and Canadian institutional investors for gross proceeds of $17,141,600.

**ProMetic BioSciences Inc. ("PBI")**

- The Phase Ib/II clinical trial of ProMetic's orally active drug targeting anemia in cancer patients undergoing chemotherapy, known as PBI-1402, was expanded to multiple sites in Canada and Europe, following initial delays in patient enrollment in Canada. The provision of efficacy results is projected to occur during the course of 2007.
- Toxicology studies of PBI-1393 were completed. Preliminary analysis of the results showed the absence of the severe toxicity displayed by other immunostimulants, and indicated a promising safety profile for the compound. The results supported the immediate preparation of offshore clinical trials in advanced cervical cancer patients.
- In a mouse xenograph model (engraftment of a human prostate cancer onto the animal), ProMetic's research compound PBI-1737, administered orally in combination with a standard cytotoxic, regressed the tumor.
- Immediately subsequent to year end, the Company received regulatory approval from Health Canada for the expansion of the clinical program of its lead compound, PBI-1402, to include the treatment of anemic patients with Chronic Kidney Disease.
- ProMetic's scientists discovered a compound, PBI-3941. Based on preliminary animal work, PBI-3941 may be promising for the treatment of neutropenia.

**ProMetic BioTherapeutics, Inc. ("PBT")**

- Pursuant to the restructuring plans announced late in 2005, PBT became a U.S.-based, operationally independent and entrepreneurial subsidiary in January 2006.
- Certain of the assets, as well as the human resources, of the Plasma Protein Purification System ("PPPS"), developed in a co-venture with the American Red Cross, were acquired by PBT.
- Nabi Biopharmaceuticals signed an exclusive license agreement with PBT for the use of ProMetic's Mimetic Ligands™ in the manufacture of selected plasma-derived hyperimmune products. Under separate services and supply agreements, ProMetic will provide technology transfer and support to Nabi, as well as the resin required by Nabi. Royalties will be paid upon product sales, and milestone payments over the next several years could reach US$18 million if Nabi develops and obtains licensure of all the products governed by its agreement with PBT.
- Sartorius AG, based in Germany, agreed to act as a preferred supplier and technology provider to PBT's licensees for PPPS filtration equipment and consumables. The alliance is designed to assist manufacturers to overcome production bottlenecks and more quickly launch commercial-scale recovery of plasma-derived proteins.
- ProMetic turned back a legal challenge resulting from the insolvency of its former North American partner Hemosol. The Plan Purchaser of Hemosol had claimed an exclusive right to market ProMetic's fractionation technology in North America for the production of hyperimmune products. The judgment vindicated ProMetic's claims, left no doubt as to its rights and, by extension, confirmed PBT's full entitlement to the transaction with Nabi Biopharmaceuticals.

**ProMetic BioSciences Ltd ("PBL")**

- CE Mark regulatory approval for MacoPharma's P-Capt™ filter, substantiating full conformity with all essential requirements of the European Medical Device Directive EC 93/42 and confirming the performance of the device, was received.
- Novartis selected PBL's technology to purify a new recombinant protein vaccine under development.
- Octapharma engaged PBL to provide scale-up quantities of a Mimetic Ligand™ affinity adsorbent to purify its new recombinant protein product. The agreement also involves project management and extensive regulatory support.
- Novozymes Delta chose PBL's purification technology for the manufacture of Recombumin®, a protein excipient. The transaction involves long-term supply by PBL of two synthetic-ligand affinity adsorbents.
- PBL entered into a research agreement with a large multinational pharmaceutical company to investigate new ways of applying its technology.

**BSafE Innovations Inc.**

- Applying in the veterinary field the research and proven efficacy of ProMetic's Pathogen Removal and Diagnostic Technologies, BSafE's scientists sourced BSE-infected material, tested various ligands with a series of experiments, and identified the ligands which could concentrate BSE infectious prions. The findings led BSafE to believe that its technology [subject to confirmation in forthcoming results] is one hundred times more sensitive than existing technologies in post-mortem testing for Mad Cow Disease, putting it in a position to develop either its own post-mortem test or a filter device designed to complement current screening tests – and ultimately to pursue development of an ante-mortem test for Mad Cow Disease.

# Selected Annual Information

The following selected annual information is derived from the consolidated financial information of the Company for each of the three most recently completed financial years. The financial statements are prepared in accordance with Canadian GAAP.

| (in thousands of Canadian dollars, except for per share amounts) | **December 31 2006** | December 31 2005 | December 31 2004 |
|---|---|---|---|
| Revenues | **2,647** | 8,052 | 8,183 |
| Net loss | **30,459** | 22,932 | 17,152 |
| Net loss per share | **0.20** | 0.20 | 0.17 |
| Total assets | **40,727** | 29,796 | 29,705 |
| Long-term debt | **11,577** | 412 | 847 |
| Convertible term notes | **–** | 4,014 | – |

# Annual Results

**Year ended december 31, 2006 compared to year ended december 31, 2005**

### Revenues

Total revenues for 2006 were $2.6 million compared with $8.1 million in 2005. Lower revenues are largely attributable to the insolvency of Hemosol which caused delays in collecting milestones and shipping products. Postponement of certain new ligand development contracts also contributed to the lower sales in 2006. On the other hand, during the last quarter of 2006, the Company signed several development and product supply agreements which could translate into revenues in 2007. Such agreements include:

- An order of $3.9 million for proprietary affinity adsorbent with one of the company's multinational clients. Half of the order was paid in December 2006 and was recorded as deferred revenues;
- An affinity ligand development program for a vaccine purification process with Novartis;
- A long term manufacturing and supply agreement with Novozymes Delta for two synthetic affinity adsorbents;
- A collaboration agreement with one of the largest pharmaceutical company in the world to investigate new approaches to the purification of biological products;
- A Services and resin supply agreement with Nabi Pharmaceuticals which was part of the exclusive license agreement announced in the third quarter of 2006.

Obtaining CE Mark for the P-Capt™ prion capture filter by MacoPharma in the second half of 2006 was a major achievement and will have a positive effect on the Company's revenues in 2007. Once blood supply agencies enter into supply agreements with MacoPharma for the P-Capt™ filter, the Company expects to generate substantial revenues from its resin supply agreement with MacoPharma and collect royalties on every filter sold.

Positive outcome from the restructuring of Hemosol could also have an impact on 2007 revenues.

**Research and development expenses**

Research and development expenses increased to $15.3 million for the year ended December 31, 2006 from $13.3 million for the same period in 2005. The variance is mainly attributable to the establishment of a US subsidiary for the Plasma Protein Purification System (PPPS) technology and lower investment tax credits as prior year adjustments for investment tax credits were recorded in 2005.

The major research and development expenditures were related to:

- The commencement of the Phase Ib/II clinical trials for the PBI-1402 program and Phase I clinical trial for the PBI-1393 program;
- The development of new compounds for the hematology and cancer programs;
- The PRDT prion filter program, co-developed with MacoPharma, for which the P-Capt™ prion capture filter obtained CE Mark certification in the second half of 2006;
- The establishment of a US subsidiary composed of former American Red Cross employees to commercialize and license the PPPS.

Tax credits of $0.8 million available under provincial tax programs were recorded in 2006.

**General and administrative expenses**

General and administrative expenses increased to $8.0 million for the year ended December 31, 2006 from $6.7 million for the year ended December 31, 2005. This increase was mainly due to:

- The preparation of an IPO for ProMetic BioSciences Ltd (PBL) which was postponed and will be reconsidered if and when a higher value is attributed to this unit;
- The legal expenses related to the litigation with the potential buyer of Hemosol. In September of 2006, the court rendered a favourable decision for the Company which removed all obstacles to licensing hyperimmune products in North America and around the world.

**Depreciation and amortization expenses**

Depreciation and amortization expenses for the year ended December 31, 2006 were lower at $2.2 million compared to $2.9 million in December 31, 2005. The decrease is mostly due to deferred development costs that were fully amortized at the beginning of the year.

**Net results**

The Company incurred a net loss of $30.5 million, or $0.20 per share, for the year ended December 31, 2006 as compared to a net loss of $22.9 million, or $0.20 per share for the year ended December 31, 2005. This significant increase in net loss is mainly due to the lower revenues and an increase in research and development expenses. Interest expenses resulting from the payment of the convertible note was offset by the decrease of the write downs of investments in Hemosol and Arriva Pharmaceuticals which were made in 2005.

# Liquidity and Financial Position

Current assets totalled $26.0 million as at December 31, 2006 compared to $15.9 million on December 31, 2005.

Accounts receivables decreased to $2.3 million for the year ended December 31, 2006, compared to $2.9 million in the year ended December 31, 2005. Accounts receivables consist mostly of research and development tax credits receivables and trade receivables. The decrease in accounts receivables is mainly attributed to the resolution of the prior years' adjustments for investment tax credits.

The net capital assets decreased to $4.5 million in 2006, from $5.3 million in 2005, and are mainly attributable to lower capital expenditures in 2006.

# Cash Flows

Cash flows used in operating activities amounted to $22.8 million for the year ended December 31, 2006, compared with $15.4 million in 2005. The decrease in cash flows used for operating activities is mainly attributed to lower revenues and an increase in research and development expenses.

Cash flows from financing activities amounted to $34.9 million for the year ended December 31, 2006 compared to $21.6 million in 2005. During 2006, the Company issued 94.7 million voting shares. The issuance of shares for 2006 is composed of a closing of a private placement with JP Morgan and Third Point LLC for $10.8 million by issuing 29.6 million shares at $0.365. In addition, the Company closed a $17.1 million equity financing in December 2006 with US and Canadian institutions in two tranches: one of 36.6 million shares at $0.25 and one of 28.5 million shares at $0.28. Finally, a non-convertible debt facility was secured in December 2006. Most of the proceeds of that debt facility were used to reimburse the convertible note that was contracted in December 2005 and January 2006. These fund raising activities concluded in December 2006 will enable the Company to pursue its business plan, complete the restructuring of its business units and work towards achieving profitability.

Cash flows used in investing activities amounted to $1.8 million compared with $2.4 million for 2005 and was mostly the result of the acquisition of the remaining (PPPS) licensing rights from the American Red Cross.

# Off-Balance Sheet Arrangements

In the normal course of business, the Company finances certain of its activities off-balance sheet through leases. On an ongoing basis, we enter into operating leases for buildings and equipment. Minimum future rental payments under these operating leases, determined as at December 31, 2006, are included in the contractual obligations table below.

**Contractual obligations**

In the normal course of operations, the Company has entered into several contracts providing for the following payments over the next few years:

| (in thousands of Canadian dollars) | Payments due by period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1–2 years | 3–4 years | After 4 years |
| Long-term debt | 11,577 | 2,678 | 8,893 | 6 | - |
| Operating leases | 7,744 | 2,062 | 3,398 | 1,562 | 722 |
| Total contractual obligations | 19,321 | 4,740 | 12,291 | 1,568 | 722 |

# Critical Accounting Estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting periods. We have identified the following accounting policies that we believe require application of management's subjective judgment, often requiring the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Our actual results could differ from these estimates and such difference could be material.

**Impairment of long-lived assets**

Management reviews the valuation and amortization of licenses and patents on an ongoing basis, taking into consideration any events and circumstances which may impair value. The Company assesses impairment in a two-step process, first determining when an impairment loss is recognized and then measuring that loss.

**Research and development expenses**

Research expenditures (net of related tax credits) are expensed as incurred and include reasonable allocation of overhead expenses. Development expenditures (net of related tax credits) are deferred when they meet the criteria for capitalization in accordance with Canadian GAAP, and the future benefits could be regarded as being reasonably certain. Related tax credits are accounted for as a reduction to research and development expenditures on condition that the Company is reasonably certain that these credits will materialize. During 2006 and 2005, no development costs were deferred.

**Stock-based compensation and warrants**

When the Company issues warrants and stock options to its employees, directors and officers, a fair value is derived using the Black Scholes pricing model. The application of this pricing model requires management to make assumptions regarding several variables, including the expected life of the options and warrants, the price volatility of the Company's stock over a relevant timeframe, the determination of a relevant risk-free interest rate and an assumption regarding the Company's dividend policy in the future. For the year ended December 31, 2006, the Company expensed $142,000 for stock-based compensation compared to $159,000 for the same period in 2005. As for the warrants, $2,320,000 was attributed to the contributed surplus in 2006 compared to $3,166,000 for the same period in 2005.

# Capital Stock Information

### Authorized

The authorized share capital of the Company consists of an unlimited number of subordinate voting shares, twenty million (20,000,000) multiple voting shares, and an unlimited number of preferred shares that can be issued in series.

### Issued and outstanding

The following details the issued and outstanding equity securities of the Company:

**Subordinated Voting Shares and Multiple Voting Shares**
As at December 31, 2006 the capital stock issued and outstanding consisted of 234,670,814 participating subordinate voting shares (116,501,784 as at December 31, 2005). During the year all multiple voting shares were converted in subordinate voting shares.

**Share purchase warrants**
The following is a summary of the share purchase warrants outstanding as at December 31, 2006:

| Issue Date | Expiry Date | Number outstanding | Exercise Price |
|---|---|---|---|
| December 2005 | December 2010 | 20,584,092 | US$0.30 |
| January 2006 | January 2011 | 2,999,394 | US$0.30 |
| September 2006 | September 2011 | 5,000,855 | $0.3133 |
| December 2006 | December 2009 | 1,786,187 | $0.324 |

**Stock options**
As at December 31, 2006, the Company has 3,031,500 stock options outstanding with exercise prices ranging from $0.31 to $3.00. At December 31, 2006, on an if-converted basis, these stock options would result in the issuance of 2,156,190 subordinate voting shares at an aggregate exercise price of $1.21.

# Outlook

In 2007, the Company will continue the implementation of the planned restructuring of its four business units so they will function independently as four distinct subsidiaries in terms of attracting investment and developing specific products and services.

Each operating unit has a different risk/reward profile.

The *ProMetic BioSciences Inc. (PBI) (Therapeutic)* unit faces higher risk factors but offers potentially substantial rewards from drug discovery and clinical trial development. Risk factors include the time necessary to bring a therapeutic product / drug to market, the costs associated with its development, and the regulatory environment. To minimize these risks, PBI is actively looking for co-development strategic alliances with larger pharmaceutical companies offering expertise and the financial strength to undertake advanced clinical trials and commercial launch of PBI's promising compounds PBI-1402 and PBI-1393. PBI does not expect, however, that such transactions will be possible before the completion of additional clinical studies for each of its two lead compounds.

The *ProMetic BioTherapeutics, Inc.* (PBT) unit has a solid foundation for the technology, its commercial applicability has been validated, and it has gained considerable attention within the plasma and blood industry. PBT will promote its technology platform not only with a view to licensing it as a complete plasma protein purification system for fractionators but will also promote it as a platform adaptable for plasma fractionators seeking to harvest single proteins more efficiently. Moreover, the platform can be applied to the recovery of certain proteins such as A1Pi that have established therapeutic value, but cannot be extracted effectively via current manufacturing practices. These proteins have the potential to receive "orphan drug" status and, if so, could be advanced to commercial status with the support of regulatory authorities and patient associations.

The *ProMetic BioSciences Ltd* (PBL) unit has generated revenue from sales of its Mimetic Ligand™ product line since 2003 and expects a 2007 commercial launch of the P-Capt™ prion filter by Pathogen Removal and Diagnostic Technologies (PRDT) commercial and manufacturing partner, MacoPharma, to help generate additional revenues from resin sales.

The *BSafE Innovation Inc.* (BSafE) unit is working on diagnostic tools for the detection of BSE or better known as Mad Cow Disease, in live cattle based on a technology licensed to ProMetic by PRDT. BSafE aims initially at improving the sensitivity of current *post mortem* diagnostic tests available on the market but which can detect the disease only for animals of a certain age or after a certain incubation period. The Company believes that the sale of the technology for improving these tests could generate revenues in a relatively short period of time. In the longer term, a full BSE *ante mortem* diagnostic kit could be developed by BSafE alone or in partnership with other players in the animal diagnostic market.

# Risks and Uncertainties

Until each of the units is independently financed, the success of the Company is dependent on its ability to support the development of its four operating units and its ability to bring its products to market, obtain the necessary regulatory approvals and achieve future profitable operations. This is dependent on the Company's ability to obtain adequate financing through a combination of financing activities and operations. It is not possible to predict either the outcome of future research and development programs nor the Company's ability, nor its operating units' ability, to fund these programs going forward.

# Forward-Looking Statements

The information contained in Management's Discussion and Analysis of Operating Results and Financial Position contains statements regarding future financial and operating results. It also contains forward-looking statements with regards to partnerships, joint ventures and agreements and future opportunities based on these. There are also statements related to the discovery and development of intellectual property as well as other statements about future expectations, goals and plans. We have attempted to identify these statements by use of words such as "expect", "believe", "anticipate", "intend", and other words that denote future events. These forward-looking statements are subject to material risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. These risks and uncertainties include but are not limited to the Company's ability to develop, and successfully manufacture pharmaceutical products, and to obtain contracts for its products and services and commercial acceptance of advanced affinity separation technology. Additional information on risk factors can be found in the Company Annual Information Form for the year ended December 31st, 2006. Shareholders are cautioned that these statements are predictions and these actual events or results may differ materially from those anticipated in these forward-looking statements.

Any forward-looking statements we may make as of the date hereof are based on assumptions that we believe to be reasonable as of this date and we undertake no obligation to update these statements as a result of future events.

# Disclosure Controls and Procedures

Based on an evaluation of the effectiveness of ProMetic's disclosure controls and procedures, the President and Chief Executive Officer and the Vice-President, Finance have concluded that disclosure controls and procedures were effective as of December 31, 2006 and that their design provides reasonable assurance that material information relating to ProMetic, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared.

# Summary of Quarterly Results

The following unaudited quarterly information is presented in millions of Canadian dollars except for per share amounts:

| | **Dec. 31 2006** | **Sept. 30 2006** | **June 30 2006** | **March 31 2006** | Dec. 31 2005 | Sept. 30 2005 | June 30 2005 | March 31 2005 |
|---|---|---|---|---|---|---|---|---|
| Revenues | **1.1** | **0.4** | **0.6** | **0.5** | 1.2 | 0.5 | 1.1 | 5.2 |
| Net loss | **9.9** | **7.0** | **7.1** | **6.3** | 7.8 | 5.6 | 7.4 | 2.0 |
| Net loss per share | **0.06** | **0.04** | **0.05** | **0.05** | 0.06 | 0.04 | 0.07 | 0.02 |
| Weighted average number of outstanding shares | **167** | **160** | **138** | **130** | 130 | 129 | 104 | 99 |

# Fourth Quarter

The following information is a summary of selected unaudited consolidated financial information of the Company for the three-month periods ended December 31, 2006 and 2005.

| (in thousands of Canadian dollars) | **2006** | 2005 |
|---|---|---|
| Revenues | **1,105** | 1,217 |
| Operating expenses | **7,649** | 5,167 |
| Operating loss | **6,544** | 3,950 |
| Provision related to a lawsuit | **(43)** | (34) |
| Recover (write-down) of investments | **153** | (3,833) |
| Net interest expenses | **(3,514)** | (17) |
| Net loss | **9,948** | 7,834 |

Revenues are stable during the fourth quarter and are related to the shipment of products and ligand development contract execution from PBL.

Higher operating expenses in the fourth quarter of 2006 are mainly due to the legal expenses related to the litigation with Hemosol.

The net loss increased significantly because of the interest charges related to the repayment of the convertible note.

# Management's Report

The accompanying consolidated financial statements for ProMetic Life Sciences Inc. are Management's responsibility and have been approved by the ProMetic Board of Directors. These financial statements were prepared in accordance with Canadian generally accepted accounting principles. They include some amounts that are based on estimates and judgments. The financial information contained elsewhere in the annual report is consistent with those obtained in the financial statements.

To ensure the accuracy and the objectivity of the information contained in the financial statements, the Management of ProMetic Life Sciences Inc. maintains a system of internal accounting controls. Management believes that this system gives a reasonable degree of assurance that the financial documents are reliable and provide an adequate basis for the financial statements, and that the Company's assets are properly accounted for and safe-guarded.

The Board of Directors upholds its responsibility for the financial statements in this annual report primarily through its audit committee. The audit committee is made up of independent directors who review the Company's annual consolidated statements, as well as management's discussion and analysis of operating results and financial position, and recommend their approval by the Board. Raymond Chabot Grant Thornton, LLP, Chartered Accountants, the external auditors designated by the shareholders, periodically meet with the audit committee to discuss auditing, the reporting of financial information and other related subjects.

(Signed Pierre Laurin)

Pierre Laurin
Chairman, President
and Chief Executive Officer

(Signed Stéphane Archambault)

Stéphane Archambault
Vice-President, Finance

Montréal, Canada
February 23, 2007

# Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of ProMetic Life Sciences Inc. as at December 31, 2006 and 2005 and the consolidated statements of operations, deficit, contributed surplus and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed Raymond Chabot Grant Thornton LLP)

Raymond Chabot Grant Thornton LLP
Chartered accountants

Montreal, Canada
February 23, 2007

# Consolidated Balance Sheets

(In thousands of Canadian dollars)

| | **December 31, 2006** | December 31, 2005 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | **$ 20,825** | $ 10,525 |
| Accounts receivable (note 4) | **2,298** | 2,914 |
| Inventories (note 5) | **2,223** | 1,935 |
| Prepaid expenses | **647** | 518 |
| | **25,993** | 15,892 |
| Investments (note 6) | **2,224** | 2,876 |
| Capital assets (note 7) | **4,484** | 5,324 |
| Licenses and patents (note 8) | **5,442** | 5,098 |
| Deferred financing expenses | **2,584** | 563 |
| Deferred development costs | **–** | 43 |
| | **$ 40,727** | $ 29,796 |
| LIABILITIES | | |
| Current liabilities | | |
| Bank loan (note 9) | **$ –** | $ 1,029 |
| Accounts payable and accrued liabilities | **5,696** | 5,319 |
| Provision related to a lawsuit (note 10) | **3,084** | – |
| Deffered revenues | **2,199** | – |
| Current portion of liability component of the convertible term notes | **–** | 524 |
| Current portion of long-term debt | **2,678** | 366 |
| | **13,657** | 7,238 |
| Liability component of the convertible term notes (note 11) | **–** | 3,490 |
| Long-term debt (note 12) | **8,899** | 46 |
| Provision related to a lawsuit (note 10) | **–** | 2,921 |
| Preferred shares, retractable at the holder's option | **2,916** | 2,248 |
| | **25,472** | 15,943 |
| SHAREHOLDERS' EQUITY | | |
| Share capital (note 13) | **181,412** | 150,697 |
| Contributed surplus | **8,022** | 5,929 |
| Deficit | **(174,179)** | (142,773) |
| | **15,255** | 13,853 |
| | **$ 40,727** | $ 29,796 |

The accompanying notes are an integral part of the consolidated financial statements.

# Consolidated Statements of Operations

(In thousands of Canadian dollars except for per share amounts)
Years ended December 31

| | **2006** | 2005 |
|---|---|---|
| REVENUES | | |
| Sales and contract | **$ 2,605** | $ 4,028 |
| Licensing | **42** | 4,024 |
| | **2,647** | 8,052 |
| CHARGES | | |
| Research and development expenses | **15,288** | 13,338 |
| Administration, marketing and other expenses | **8,001** | 6,742 |
| Amortization of capital assets | **1,040** | 1,110 |
| Amortization of license and patents and deferred development costs | **1,204** | 1,782 |
| | **25,533** | 22,972 |
| LOSS BEFORE THE FOLLOWING ITEMS | **(22,886)** | (14,920) |
| Provision related to a lawsuit (note 10) | **(163)** | (206) |
| Write-down of short-term investment | **–** | (5,085) |
| Recovery (write-down) of long-term investments | **153** | (2,558) |
| Net interest expenses | **(7,563)** | (163) |
| **Net loss** | **($30,459)** | ($22,932) |
| Net loss per share (basic and diluted) | **(0.20)** | (0.20) |
| Weighted average number of outstanding shares (in thousands) | **148,621** | 115,717 |

For supplemental operations information see note 14
The accompanying notes are an integral part of the consolidated financial statements.

# Consolidated Statements of Deficit

(In thousands of Canadian dollars)
Years ended December 31,

| | **2006** | 2005 |
|---|---|---|
| DEFICIT, BEGINNING OF YEAR | **$ 142,773** | $ 117,495 |
| Net Loss | **30,459** | 22,932 |
| Share issue expenses | **947** | 2,346 |
| DEFICIT, END OF YEAR | **$ 174,179** | $ 142,773 |

The accompanying notes are an integral part of the consolidated financial statements.

# Consolidated Statements of Contributed Surplus

(In thousands of Canadian dollars)
Years ended December 31, 2006 and 2005

| | Stock-based compensation | Warrants | Conversion option on term notes | Other | Total contributed surplus |
|---|---|---|---|---|---|
| CONTRIBUTED SURPLUS, AS AT DECEMBER 31, 2004 | $ 99 | $ – | $ – | $ – | $ 99 |
| Stock-based compensation | 159 | – | – | – | 159 |
| Term Notes (note 11) | | | | | |
| Issuance | – | 2,342 | 2,505 | – | 4,847 |
| Issuance of warrants as financing expenses | – | 824 | – | – | 824 |
| CONTRIBUTED SURPLUS, AS AT DECEMBER 31, 2005 | $ 258 | $ 3,166 | $ 2,505 | $ – | $ 5,929 |
| Stock-based compensation | 142 | – | – | – | 142 |
| Term Notes (note 11) | | | | | |
| Issuance | – | 401 | 429 | – | 830 |
| Conversion | – | – | (798) | – | (798) |
| Cancellation pursuant to payment | – | – | (2,136) | 2,136 | – |
| Issuance of warrants as financing expenses (note 12) | – | 1,919 | – | – | 1,919 |
| CONTRIBUTED SURPLUS, AS AT DECEMBER 31, 2006 | **$ 400** | **$ 5,486** | **$ –** | **$ 2,136** | **$ 8,022** |

The accompanying notes are an integral part of the consolidated financial statements.

# Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)
Years ended December 31,

| | 2006 | 2005 |
|---|---|---|
| **Cash flows used in operating activities** | | |
| Net loss | **$ (30,459)** | $ (22,932) |
| Adjustments to reconcile net loss to cash flows used in operating activities | | |
| Charges paid with PRDT preferred shares | **1,276** | – |
| Write-down of short term investment | **–** | 5 085 |
| Revenues received in shares | **–** | (3,000) |
| Interests on convertible term notes | **794** | – |
| Stock-based compensation | **142** | 159 |
| Write-down of long term investments | **–** | 2,558 |
| Loss (gain) on exchange rate | **403** | (94) |
| Amortization of capital assets | **1,040** | 1,110 |
| Amortization of deferred development costs | **43** | 947 |
| Amortization of deferred financing expenses | **750** | – |
| Amortization of licenses and patents | **1,150** | 835 |
| | **(24,861)** | (15,332) |
| Change in working capital items (note 20) | **2,068** | (37) |
| | **(22,793)** | (15,369) |
| **Cash flows from financing activities** | | |
| Proceeds from share issues | **27,945** | 15,015 |
| Share issue expenses | **(949)** | (1,514) |
| Deferred financing expenses | **(62)** | (373) |
| Issuance of convertible term notes | **1,513** | 8,861 |
| Repayment of convertible term notes | **(3,640)** | – |
| Long-term debt | **11,512** | 1,080 |
| Repayment of long-term debt | **(348)** | (1,515) |
| Bank loan | **(1 029)** | – |
| | **34,942** | 21,554 |
| **Cash flows used in investing activities** | | |
| Disposal of short term investments | **–** | 255 |
| Acquisition of an investment | **–** | ( 293) |
| Additions to capital assets | **(267)** | (3,020) |
| Grants received | **–** | 1,091 |
| Additions to licenses and patents | **(1,582)** | (463) |
| | **(1,849)** | (2,430) |
| Net increase in cash and cash equivalents | **10,300** | 3,755 |
| Cash and cash equivalents, beginning of year | **10,525** | 6,770 |
| Cash and cash equivalents, end of year | **$ 20,825** | $ 10,525 |

For supplemental cash flow information, see note 20
The accompanying notes are an integral part of the consolidated financial statements.

# Notes to Consolidated Financial Statements

Years ended December 31, 2006 and 2005
(in thousands of Canadian dollars except for number of shares or as otherwise specified)

## *Note 1.* Governing statutes, nature of operations and going concern

ProMetic Life Sciences Inc.("ProMetic" or the "Company"), incorporated under the Canada Business Corporations Act, is an international biopharmaceutical company engaged in the research, development, manufacturing and marketing of a variety of applications developed from its own exclusive technology platform. The Company owns proprietary technology essential for use in the large-scale purification of drugs, genomics and proteomics products as well as medical and therapeutic applications.

These financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and accordingly will be able to realize its assets and discharge its liabilities in the normal course of operations. Since inception, the Company has concentrated its resources on research and development. It has had no net earnings, minimal revenues, negative operating cash flows and has financed its activities through the issuance of shares. The Company's ability to continue as a going concern is dependent on obtaining additional investment capital and the achievement of profitable operations. There can be no assurance that the Company will be successful in increasing revenue or raising additional investment capital to generate sufficient cash flows to continue as a going concern. These financial statements do not reflect the adjustments that might be necessary to the carrying amount of reported assets, liabilities and revenues and expenses and the balance sheet classification used if the Company were unable to continue operations in accordance with this assumption.

## *Note 2.* Changes in accounting policies

### Standards applicable for the year ended December 31, 2006

#### Non-monetary transactions

In June 2005, the Canadian Institute of Chartered Accountants ("CICA") published chapter 3831 "Non-monetary transactions" replacing chapter 3830 entitled under the same name. The new chapter applies to all non-monetary transactions initiated in periods beginning on or after January 1, 2006. The main feature of this chapter is the general obligation, unchanged from the previous chapter 3830, to measure an asset or a liability exchanged or transferred in a non-monetary transaction at fair value. However, an asset exchanged or transferred in a non-monetary transaction is valued at book value when the transaction has no commercial substance, when the transaction is an exchange of a product or property held for sale in the ordinary course of business for a product or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange, when neither the fair value of the asset received nor the fair value of the asset given up is reliably measurable or when the transaction is recognized as a non-monetary non reciprocal transfer to the benefit to owners. This represents a spin-off or other form of restructuring or liquidation. The criteria of "commercial substance" replaces the one called culmination of the earnings process in the previous chapter 3830. Adoption of these recommendations did not affect the financial position or results of operations in the consolidated financial statements.

### Standards applicable for the year ending December 31, 2007

#### Comprehensive income

In April 2005, the CICA published chapter 1530 "Comprehensive income" that requires an entity to recognize the change in equity or net assets during a period from transactions and other events and circumstances from non-owner sources and requires the introduction of a statement of comprehensive income.

*Note 2. Changes in accounting policies (cont.)*

**Financial instruments**

In April 2005, the CICA published chapter 3855 "Financial instruments – Recognition and Measurement" that provides guidance on when a financial instrument must be recognized on the balance sheet and how it must be measured. It also provides guidance on the presentation of gains and losses on financial instruments.

The transactional impact of these new standards is being evaluated by the Company.

## *Note 3.* Significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Significant accounting polices are described below.

**a) Use of estimates:**
The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant items for which management must make estimates relate to the valuation and assessment of recoverability of the investments, licenses and patents, tax credits and deferred development costs. Reported amounts and note disclosure reflect the overall economic conditions that are most likely to occur and anticipated measures to be taken by management. Actual results could differ from those estimates.

**b) Basis of consolidation:**
The consolidated financial statements include the accounts of ProMetic Life Sciences Inc., of its subsidiaries ProMetic BioSciences Inc., ProMetic BioSciences (USA), Inc., ProMetic BioSciences Ltd, ProMetic BioTherapeutics, Inc., BSafE Innovations Inc. as well as those of the two joint ventures Arriva-Prometic Inc. and Pathogen Removal and Diagnostic Technologies Inc. (hereinafter referred to as "A-P" and "PRDT"), which are accounted for on a proportionate consolidation basis whereby the Company's proportionate share of its joint ventures' revenues, expenses, assets and liabilities are consolidated. All significant intercompany transactions and balances have been eliminated.

**c) Cash and cash equivalents:**
Cash and cash equivalents are bank deposits and highly liquid investments purchased with a maturity of three months or less.

**d) Inventories:**
Inventories of work in progress and finished goods are valued at the lower of cost and net realizable value, whereas inventories of raw materials are valued at the lower of cost and replacement cost. Cost is determined on a first in, first out basis.

**e) Investments:**
The investments are recorded at acquisition cost. When, in management's opinion, there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. In determining the estimated realizable value of its investment, management relies on its judgment and knowledge of each investment as well as on assumptions about general business and economic conditions that prevail or are expected to prevail. These assumptions are limited due to the uncertainty of projected future events.

*Note 3. Significant accounting policies (cont.)*

**f) Capital assets:**

Capital assets are recorded at cost. Amortization is provided over the useful lives of capital assets using the following method, annual rates and period:

| Asset | Method | Rate/period |
|---|---|---|
| Leasehold improvements | Straight-line | Lease term |
| Equipment and tools | Declining balance | 10% to 30% |
| Office equipment and furniture | Declining balance | 20% |
| Computer equipment | Declining balance | 30% |

**g) Government grants :**

Government grants on capital expenditures are credited to capital assets and are amortized over the expected life of the relevant assets by equal annual amounts. Grants receivable in connection with operating expenditures are credited to the consolidated statement of operations in the period in which the expenditures took place.

**h) Licenses and patents:**

Licenses and patents include vested rights as well as licensing fees for product manufacturing and marketing. Amortization is provided over the useful lives of the licenses and patents acquired using the straight-line method ranging up to 20 years. Management reviews the valuation and amortization of licenses and patents on an ongoing basis, taking into consideration any events and circumstances which may impair its value. The Company assesses impairment in a two-step process for first determining when an impairment loss is recognized and then measuring that loss.

**i) Research and development:**

Research expenditures (net of related tax credits) are expensed as incurred and include a reasonable allocation of overhead expenses. Development expenditures (net of related tax credits) are deferred when they meet the criteria for capitalization in accordance with Canadian GAAP, and the future benefits could be regarded as being reasonably certain. Related tax credits are accounted for as a reduction to research and development expenditures on condition that the company is reasonably certain that these credits will materialize. During fiscal years ended December 31, 2006 and 2005, no development costs were deferred.

**j) Deferred financing expenses:**

Deferred financing expenses are amortized using the straight line method over the term of the long-term debt.

**k) Revenue recognition:**

The Company earns revenue from research and development collaboration services, licensing fees and products sales. Payments received under collaborative research and development agreements, which are non-refundable, are recorded as revenue as services are performed and the related expenditures incurred pursuant to the terms of the agreement and provided collectibility is reasonably assured. Non-refundable up-front license fees from collaborative licensing and development arrangements are recognized as the Company fulfills its obligations related to the various elements within the agreements, in accordance with the contractual arrangements with third parties and the term over which the underlying benefit has been conferred.

Revenues associated with multiple element arrangements are attributed to the various elements based on their relative fair value. Any up-front license payments received under an agreement whereby the Company also provides research and development services are recognized as revenue over the term of the research and development period. Revenue earned under contractual arrangements upon the occurrence of specified milestone is recognized as the milestones are achieved and collection of payment is reasonably assured.

Revenue from product sales is recognized when the following criterias are met: i) there is persuasive evidence that an arrangement exists; ii) products are shipped; iii) the selling price is fixed or determinable; iv) collectibility is reasonably assured. Cash or other compensation received in advance of meeting the revenue recognition criteria is recorded as deferred revenue on the consolidated balance sheet.

(In thousands of Canadian dollars except for number of shares or as otherwise specified)

*Note 3. Significant accounting policies (cont.)*

**l) Foreign currency translation:**
The Company's foreign subsidiaries are considered as integrated foreign operations. Foreign denominated monetary assets and liabilities of Canadian and foreign operations are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at year-end exchange rates while non-monetary items are translated at historical exchange rates. Expense items are translated at the exchange rates on the transaction date or at average exchange rates prevailing during the year. Exchange gains or losses are included in the consolidated statement of operations.

**m) Income taxes:**
The Company uses the liability method of accounting for income taxes. Future income tax assets and liabilities are recognized in the balance sheet for the future tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using income tax rates expected to apply when the assets are realized or the liabilities are settled. The effect of a change in income tax rates is recognized in the year during which these rates change. Future income tax assets are recognized and a valuation allowance is provided if realization is not considered "more likely than not".

**n) Stock-based compensation:**
The Company maintains a stock option plan as described in note 13 c). The Company uses the fair value method to account for all stock-based payments to non-employees that have been awarded on or after January 1, 2002. The stock base compensation to employees is measured at the grant date based on the fair value of the award and is recognized over the related service period.

**o) Earnings per share :**
Basic earnings per share are calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method giving effect to the exercise of options and warrants. The treasury stock method assumes that any proceeds that could be obtained upon the exercise of options and warrants would be used to repurchase common shares at the average market price during the year.

**p) Share issue expenses:**
The company record share issue expenses in the consolidated statement of deficit.

## *Note 4.* Accounts receivable

| | **2006** | 2005 |
|---|---|---|
| Trade* | **$ 1,143** | $ 374 |
| Sales taxes receivable | **201** | 164 |
| Tax credits receivable (note 9) | **710** | 2,225 |
| Advance to an officer, without interest | **6** | 22 |
| Accrued interest and other | **238** | 129 |
| | **$ 2,298** | $ 2,914 |

* The trade accounts include amounts receivable from two customers, which represent approximately 53% of the Company's total trade accounts receivable in 2006 and two customers representing approximately 70% of total trade receivable in 2005.

## *Note 5.* Inventories

| | **2006** | 2005 |
|---|---|---|
| Raw materials | **$ 440** | $ 389 |
| Work in progress and finished goods | **1,783** | 1,546 |
| | **$ 2,223** | $ 1,935 |

## *Note 6.* Investments

| | **2006** | 2005 |
|---|---|---|
| Convertible preferred shares of AM-Pharma Holding B.V. | **$ 358** | $ 358 |
| Guaranteed Investment Certificate, 3.5%, expiring in June 2007 pledged as security of a letter of credit to a supplier expiring in November 2010 | **200** | 200 |
| Cash subject to certain limitations | **83** | 70 |
| Excess of interest in the joint venture PRDT over proportionate share in consolidated net assets | **1,583** | 2,248 |
| | **$ 2,224** | $ 2,876 |

The consolidated financial statements include the Company's proportionate share of the revenues, expenses, assets and liabilities of PRDT and of A-P as follows:

| | | | **2006** | 2005 |
|---|---|---|---|---|
| | PRDT [a] | A-P [note 8c] | **Total** | Total |
| Current assets | $ 1 | $ 1 | **$ 2** | $ 1 |
| Long-term assets | 1,582 | 898 | **2,480** | 4,056 |
| Total liabilities | 2,916 [b] | 6 | **2,920** | 2,254 |
| Total revenues | 346 | – | **346** | 424 |
| Total expenses | 3,050 | 828 | **3,878** | 2,342 |
| Net loss | 2,704 | 828 | **3,532** | 1,918 |
| Cash flows from: | | | | |
| Operations | $ – | $ (11) | **$ (11)** | $ (16) |
| Investing | – | 34 | **34** | (19) |

(In thousands of Canadian dollars except for number of shares or as otherwise specified)

*Note 6. Investments (cont.)*

a) The Company has a joint venture with the American Red Cross and two other partners under the legal name Pathogen Removal and Diagnostic Technologies Inc. ("PRDT") in which the Company owns 26% of the voting shares. PRDT is engaged in the research, development and commercialization of pathogen diagnostic and removal systems.

Under the terms of the joint venture agreement, ProMetic and the American Red Cross will each contribute intellectual property and technical expertise to develop pathogen diagnostic and removal systems. They both equally assume the direct costs of the joint venture. Preferred shares including a 14% cumulative dividend will be issued by PRDT to the Company and to the American Red Cross in consideration of their proportionate shares in direct and indirect costs.

(b) The PRDT joint venture has issued preferred shares in consideration of the proportionate share of each partner in direct and indirect costs. These preferred shares are retractable at the holder's option, provided that PRDT has sufficient cash flows, and include a 14% cumulative dividend effective January 1, 2003. Since the shares issued by the joint venture are retractable at the holder's option, they are considered as debt rather than share capital. Thus, as part of the proportionate consolidation, the Company must acknowledge 26% of the shares issued to the American Red Cross as a debt to a third party.

## *Note 7.* Capital assets

| | **2006** | | 2005 | |
|---|---|---|---|---|
| | **Cost** | **Accumulated amortization** | Cost | Accumulated amortization |
| Leasehold improvements | **$ 3,357** | **$ 1,250** | $ 3,252 | $ 845 |
| Equipment and tools | **6,121** | **4,345** | 6,092 | 3,909 |
| Office equipment and furniture | **700** | **416** | 675 | 346 |
| Computer equipment | **1,057** | **740** | 1,016 | 611 |
| | **11,235** | **6,751** | 11,035 | 5,711 |
| Accumulated amortization | **6,751** | | 5,711 | |
| Net book value | **$ 4,484** | | $ 5,324 | |

Deferred capital grants for a total of $ 67 in 2006 and of $1,091 in 2005 received from the Isle of Man government are credited to the cost of capital assets (see note 22).

## *Note 8.* Licenses and Patents

| | **2006** | | 2005 | |
|---|---|---|---|---|
| | **Cost** | **Accumulated amortization** | Cost | Accumulated amortization |
| Licenses | **$ 7,159** | **$ 3,439** | $ 6,700 | $ 2,527 |
| Patents | **2,066** | **344** | 1,237 | 312 |
| | **9,225** | **3,783** | 7,937 | 2,839 |
| Accumulated amortization | **3,783** | | 2,839 | |
| Net book value | **$ 5,442** | | $ 5,098 | |

a) The Company owns the rights, title and interest in and to the know-how, information, technology and patents relating to its Mimetic Ligand™ technology. A portion of these rights, title and interest were assigned to the Company by Cambridge University's Institute of Biotechnology in consideration of the payment of continuing royalties; the others having been developed by the Company.

b) As of April 13, 1999, through its subsidiary, ProMetic BioSciences Inc., the Company entered into a 50-50 joint venture, Arriva-Prometic Inc., with Arriva Pharmaceuticals, Inc. ("Arriva") for the development of applications relating to serine protease inhibitors as a platform for various pharmaceutical products for dermatological (eczema, psoriasis, genital herpes) and gastrointestinal (Crohn's disease, irritable bowel syndrome) treatments and urinary tract indications. The first serine protease inhibitor pursued is recombinant alpha 1-antitrypsin ("rAAT"), a compound produced in genetically-engineered yeast cells.

Arriva has granted Arriva-ProMetic an exclusive, perpetual license to develop, manufacture and commercialize these serine protease inhibitors, and the Company has granted Arriva-ProMetic an exclusive, perpetual license for the use of its Mimetic Ligand™ purification technology for the indications within the scope of the joint venture. The Company has also undertaken to fund the joint venture to a maximum of US$4 million of which US$57,000 has been contributed in 2006 for a total of US$3,928,000 and US$3,871,000 in 2005. The Company will progressively record 50% of its US$4 million contribution as intellectual property. In 2006, the Company recorded an amount of $34 as intellectual property, $19 in 2005 for a total of $2,724 in 2006 and of $2,690 in 2005.

c) On June 6, 2002, the Company acquired for $400 a worldwide exclusive license to patents, preclinical data and know-how pertaining to three therapeutic compounds (immunomodulators and adjuvants) for human applications. The Company will make further improvements to the compounds and milestone payments are to be made if positive results are achieved upon completion of the main development phases. Furthermore, the Company will pay royalties on the sales of compound-based products.

d) The purpose of the strategic alliance between the Company and the American Red Cross signed in January 2003 is to co-develop the Cascade process and license to third parties proprietary technology for the recovery and purification of valuable therapeutic proteins from human blood plasma. The Cascade process integrates novel technologies in a sequence that is expected to significantly improve both the yield and range of valuable proteins capable of being isolated from human plasma. In April 2006, the Company paid the American Red Cross US$1,000,000 for an exclusive license for access to and use of intellectual property rights for the Plasma Protein Purification System ("PPPS") project. ProMetic will be collecting revenues deriving from any licensing activities, such as royalties on net sales, lump sum amounts and/or milestone payments. ProMetic will pay a royalty to the American Red Cross of 12% of all sales products to third parties. Also, every year, an annual minimum royalty of US$30,000 should be paid.

(In thousands of Canadian dollars except for number of shares or as otherwise specified)

*Note 8. Licenses and Patents (cont.)*

e) An officer is entitled to receive royalties based on the sales of certain products submitted to ProMetic before joining the Company. These royalties are 0.5% of net sales or 3% of revenues received by the Company. This employee also has the exclusive right to commercialize these products should ProMetic decide to stop developing and (or) commercializing them, subject to mutually acceptable terms and conditions.

f) In the normal course of business, the Company enters into license agreements for the market launching or commercialization of intellectual property. Under these licenses, including those mentioned above, the Company has committed to pay royalties ranging generally between 0.5% and 10% of net sales from products it commercializes.

## *Note 9.* Bank loan

| | **2006** | 2005 |
|---|---|---|
| Bank loan of ProMetic BioSciences Inc., a wholly-owned subsidiary of the Company, related to research and development tax credits bearing interest at prime plus 1.75% (6.75 % as at December 31, 2005). The bank loan expired in 2006. | **$ –** | $ 1,029 |

## *Note 10.* Provision related to a lawsuit

As a result of the Québec Superior Court decision (the "Decision") in favor of the Bank of Montreal in December 2004, a non-recurring expense of $163 ($206 in 2005) has been recorded in the consolidated statement of operations. A total of $3,084 ($2,921 in 2005) has been recorded in the accrued liabilities. In January 2005, the Company appealed the Decision, and at year end was awaiting a hearing date before the Québec Court of Appeals.

Furthermore, a legal hypothec in the amount of $2,762 (with interests and additional indemnity as provided for by law) resulting from the Decision, was registered on December 23, 2004 in favor of Bank of Montreal and charging certain movable assets of ProMetic Life Sciences Inc. ("PLI"), including shares held by it in the share capital of all its subsidiaries, as well as in PRDT, and any sums lent to such entities by PLI.

# *Note 11.* Convertible Term Notes

On December 30, 2005, the Company issued Secured Convertible Term Notes with a principal amount to be paid of US$9.538 million ($11,120) for a total cash consideration of US$7.6 million ($8,861). Additional notes with a principal amount of US$1.634 million ($1,905) for a total cash consideration of US$1.302 million ($1,513) were issued in January 2006. The notes were issued at an original issue discount of 20.32% and have an effective interest rate of 63.19%.

During the year, some of the note holders converted part of their investment resulting in an issuance of 10,404,826 subordinate voting shares. The portion of the convertible term notes ($1,972) and the conversion option in the contributed surplus ($798), attributed to the notes, was credited to the share capital.

The notes were fully paid in December 2006 pursuant to a long-term debt the Company contracted (see note 12).

In total, warrants to purchase 20,507,379 subordinate voting shares were issued to the holders at an exercise price of US$0.30 per share and are exercisable for a period of five years. 17,507,985 warrants were issued in 2005 and 2,999,394 were issued in January 2006. In addition, 3,076,107 warrants with an exercise price of US$0.30 per share were issued in 2005 as compensation warrants to the Company's agent.

For accounting purposes, the notes contain both a liability component and an equity component (the holder's conversion option and the warrants). The value of the liability component has been determined by discounting the future repayments at discount rate which represents the estimated borrowing rate available to the Company for similar notes having no warrants and no conversion rights. The fair values of the warrants and the holder's conversion option were determined using the Black Scholes option pricing model using the following assumptions:

| | Conversion option | Warrants |
|---|---|---|
| Risk-free interest rate | 4.37-4.41% | 4.35% |
| Dividend yield | 0% | 0% |
| Expected volatility of share price | 70-80% | 70-80% |
| Expected life | 9-36 months | 5 years |

The estimated fair value was adjusted on a prorata basis, to ensure that the fair value assigned to the components equals the total cash consideration received for the issuance of the term notes.

The equity component of shareholder's equity is recorded separately. The other issuance costs incurred related to the Note have been accounted for as deferred financing cost for the portion attributable to the liability component and as share issue expenses for the portion attributable to the equity component.

As at December 31, 2006, the following warrants related to the convertible term notes were outstanding:

| Warrants | Expiry date | Exercise price |
|---|---|---|
| 20,584,092 | December 2010 | US$0.30 |
| 2,999,394 | January 2011 | US$0.30 |

(In thousands of Canadian dollars except for number of shares or as otherwise specified)

# *Note 12.* Long-term debt

| | **Current portion** | **2006** | 2005 |
|---|---|---|---|
| Loan with a nominal value of US$10,000,000, guaranteed by all assets of the Company, bearing interest at 15.034 %, payable with monthly instalments of US$433,250 starting in June 2007. Maturing in August 2009. (a) | **$2,630** | **$11,512** | $ – |
| Loan secured by the Company and a first mortgage on the capital assets financed by such loan, bearing interest at 9.5%, payable with monthly instalments of $7, maturing in June 2007 | **43** | **43** | 412 |
| Obligations under capital leases payable in monthly instalments of $1, maturing in December 2008 and December 2010 | **5** | **22** | – |
| | **2,678** | **11,577** | 412 |
| Current portion of long term debt | | **2,678** | 366 |
| | | **$8,899** | $ 46 |

The instalments on the long-term debt for the next years are as follows:

Year ending December 31:

| | |
|---|---|
| 2007 | $ 2,678 |
| 2008 | 5,068 |
| 2009 | 3,825 |
| 2010 | 6 |

(a) 5,000,855 warrants with an exercise price of $0.3133 per share were issued to the lender as compensation for making the loan commitment. If in September 2007, the fair market value of the Company's subordinate voting shares are less than four (4) times the value of the exercise price, the Company shall be required to compensate the lender with a payment of US$ 1,400,000 which will be offset by the obligation by the lender to exercise its 5,000,855 warrants, at the agreed-to exercise price.

Furthermore, 1,786,187 warrants with an exercise price of $0.324 were issued as compensation warrants to the Company's agent.

The fair value of the warrants was determined using the Black-Scholes options-pricing model with the following assumptions: Expected dividend yield of 0%, expected volatility of 70%-80% and 82%, risk-free interest rates of 3.96% and 4.12% and expected life of three and five years. The estimated fair values of the warrants at the date of grant were respectively $0.298 and $0.24. The total value of the warrants of $1,919 is accounted as deferred financing expenses. Considering the warrants and other expenses incurred for the long-term debt, the effective interest rate is 32.75%.

*Note 12. Long-term debt (cont.)*

As at December 31, 2006, the following warrants related to the long-term debt were outstanding:

| Warrants | Expiry date | Exercise price |
|---|---|---|
| 5,000,855 | September 2011 | $ 0.3133 |
| 1,786,187 | December 2009 | $ 0.324 |

## *Note 13.* Share capital

**Authorized and without par value:**

Unlimited number of subordinate voting shares, participating, carrying one vote per share.

20,000,000 multiple voting shares, participating, carrying ten votes per share, convertible at the option of the holder or automatically converted upon their sale to a third party by the holder into an equal number of subordinate voting shares.

Unlimited number of preferred shares, no par value, issuable in one or several series.
1,050,000 preferred shares, series A, non-participating, non-voting, convertible at the option of the holder into subordinate voting shares at $0.50 per share except for unpaid dividends, convertible at a rate equal to the trading average of the subordinate voting shares on the Toronto Stock Exchange during the 20 business days prior to the conversion, preferential cumulative dividend of 12% per year, payable quarterly.

950,000 preferred shares, series B, non-participating, non-voting, convertible at the option of the holder into subordinate voting shares at $0.60 per share except for unpaid dividends, convertible at a rate equal to the trading average of the subordinate voting shares on the Toronto Stock Exchange during the 20 business days prior to the conversion, preferential cumulative dividend of 12% per year, payable quarterly.

| | **2006** | | 2005 |
|---|---|---|---|
| | **Number** | **Amount** | Number | Amount |
| Issued and fully paid: | | | | |
| Subordinate voting shares | **234,670,814** | **$ 181,862** | 116,501,784 | $ 149,584 |
| Multiple voting shares | **–** | **–** | 13,026,375 | 1,563 |
| Share purchase loan to an officer, without interest and due no later than 2009 | | **(450)** | | (450) |
| Balance, at end of year | | **$ 181,412** | | $ 150,697 |

(In thousands of Canadian dollars except for number of shares or as otherwise specified)

*Note 13. Share capital (cont.)*

**a) Share issue:**

Changes in the issued and outstanding subordinate voting shares were as follows:

| | **2006** | | 2005 | |
|---|---|---|---|---|
| | **Number** | **Amount** | Number | Amount |
| Balance, at beginning of year | **116,501,784** | **$149,584** | 86,486,784 | $134,569 |
| Shares issued pursuant to: | | | | |
| Conversion of multiple voting shares | **13,026,375** | **1,563** | – | – |
| Private offerings | **29,600,000** | **10,804** | – | – |
| Public offerings | **65,137,829** | **17,141** | 30,000,000 | 15,000 |
| Conversion of convertible notes (note 11) | **10,404,826** | **2,770** | – | – |
| Exercise of options | **–** | **–** | 15,000 | 15 |
| Balance, end of year | **234,670,814** | **$181,862** | 116,501,784 | $149,584 |

During the year 2006, the multiple voting shares were converted to subordinate voting shares on a ratio 1:1. In 2006 and in 2005, all subordinate voting shares from private and public offerings were issued for a cash consideration.

**b) Stock options:**

The Company has established a stock option plan for its directors, officers and employees or service providers. The plan provides that the aggregate number of shares reserved for issuance at any time under the plan and any other employee incentive plans may not exceed 6,000,000 subordinate voting shares. Some options may be exercised in a period not exceeding 10 years from the date they were granted. Since September 10, 2001, the new options issued may be exercised over a period not exceeding 5 years and 1 month from the date they were granted (options vest 20% per annum). The exercise price is based on the average strike price of the five business days prior to the grant.

| | | Number of options outstanding | |
|---|---|---|---|
| Year of grant | Exercise price | **2006** | 2005 |
| 1997 | $1.50 | **75,000** | 75,000 |
| 1998 | $2.00 to $3.00 | **51,000** | 51,000 |
| 1999 | $1.00 to $2.00 | **1,340,500** | 1,386,500 |
| 2000 | $1.35 | **200,000** | 200,000 |
| 2001 | $1.60 | **15,000** | 572,500 |
| 2002 | $2.70 | **19,000** | 19,000 |
| 2003 | $2.70 | **48,500** | 63,800 |
| 2004 | $2.70 | **155,700** | 279,575 |
| 2005 | $1.00 | **250,000** | 350,000 |
| 2006 | $0.31 to $0.41 | **1,776,800** | – |
| | | **3,931,500** | 2,997,375 |

*Note 13. Share capital (cont.)*

The following table summarizes the changes in the number of stock options outstanding over the last two years:

| | Options | Weighted average exercise price per share |
|---|---|---|
| Number of options as at December 31, 2004 | 3,615,702 | $1.62 |
| 2005 Granted | 397,500 | 1.07 |
| Exercised | (15,000) | 1.00 |
| Cancelled | (1,000,827) | 1.98 |
| Number of options as at December 31, 2005 | 2,997,375 | 1.43 |
| 2006 Granted | 1,896,800 | 0.34 |
| Exercised | – | – |
| Cancelled | (355,675) | 1.52 |
| Expired | (607,000) | 1.33 |
| Number of options as at December 31, 2006 | 3,931,500 | $0.91 |

A compensation expense of $142 in 2006 and $159 in 2005 was recorded as a result of stock options granted to directors, officers, employees and consultants.

The following table summarizes information about stock options outstanding as at December 31, 2006:

| Range of exercise prices | Number outstanding | Weighted average remaining contractual life (in years) | Weighted average exercise price | Number exercisable | Weighted average exercise price |
|---|---|---|---|---|---|
| **$ – to $0.45** | **1,776,800** | **4.72** | **$0.34** | **215,750** | **$0.41** |
| **$1.00 to $1.49** | **1,543,500** | **3.82** | **1.05** | **1,493,500** | **1.05** |
| **$1.50 to $1.75** | **90,000** | **1.29** | **1.52** | **87,000** | **1.51** |
| **$1.76 to $3.00** | **521,200** | **3.03** | **2.40** | **359,940** | **2.26** |
| | **3,931,500** | | | **2,156,190** | |

As at December 31, 2005, 2,368,835 stock options were exercisable.

**c) Stock-based compensation and other stock-based payments:**
The Company uses the Black-Scholes option valuation model to calculate the fair value of options at the date of grant, using the following assumptions:

| | **2006** | 2005 |
|---|---|---|
| Risk-free interest rate | **4.28%** | 3.56% |
| Dividend yield | **0%** | 0% |
| Expected volatility of share price | **73.90%** | 73.70% |
| Expected life | **5 years** | 5 years |

The estimated fair value of options granted during the year ended December 31, 2006 is $0.21. In 2005, it was $0.44.

(In thousands of Canadian dollars except for number of shares or as otherwise specified)

## *Note 14.* Information included in the consolidated statements of operations

| | **2006** | 2005 |
|---|---|---|
| Amortization of capital assets | **1,040** | 1,110 |
| Amortization of deferred development costs | **43** | 947 |
| Amortization of licenses and patents | **1,150** | 835 |
| Gross research and development expenses | **16,098** | 15,082 |
| Research and development tax credits | **810** | 1,744 |
| Interest on long-term debt and convertible term notes | **7,766** | 136 |
| Interest on short-term debt | **92** | 128 |
| Interest income | **295** | 101 |
| Gain (Loss) on exchange rate | **(403)** | 94 |

## *Note 15.* Commitments

The Company has commitments under various operating leases for the rental of office and laboratory space and office equipment. The minimum annual payments for the coming years are as follows:

| | |
|---|---|
| 2007 | 2,062 |
| 2008 | 1,762 |
| 2009 | 1,636 |
| 2010 | 1,131 |
| 2011 | 431 |
| 2012 and thereafter | 722 |
| | **$7,744** |

## *Note 16.* Pension plan

The Company contributes to a defined contribution pension plan for all of its permanent employees. The Company matches employee contributions representing up to 3% of their annual salary. The Company's contributions for the year are $240 ($236 in 2005).

## *Note 17.* Financial instruments

**a) Fair value:**
The carrying value of cash and cash equivalents, accounts receivable, guaranteed investment certificates, cash subject to certain limitations, bank loan, accounts payable and accrued liabilities approximates their fair value because of the near-term maturity of these instruments. The carrying value of the long-term debt approximates its fair value because it was issued at year end.

The fair value of the investment AM-Pharma Holding B.V. was not readily determinable because it is a private company.

The fair value of the excess of interest in the joint venture of PRDT over proportionate share in consolidated net assets and preferred shares retractable at the holder's option cannot be determined because these are shares of a private joint venture company at the pre-commercial stage and because it is not possible to determine in which period these shares may be redeemed.

The fair value of the convertible term notes was estimated in 2005 at its issuance as described in note 11.

**b) Credit risk:**
The Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance.

**c) Foreign exchange risk:**
The Company derives a substantial part of its revenues in sterling pounds and the majority of its expenses that are not denominated in Canadian dollars are incurred in sterling pounds and in United States dollars.

Financial assets, consisting principally of cash and cash equivalents and accounts receivable, denominated in sterling pounds totaled £1,135,806 in 2006 and £413,651 in 2005 and financial liabilities denominated in sterling pounds totaled £659,538 in 2006 and £1,178,712 in 2005.

Financial assets, consisting principally of cash and cash equivalents in United States dollars totaled US$8,528,000 in 2006 and US$7,080,000 in 2005. Financial liabilities consisting principally of accounts payable, accrued liabilities and long-term debt, denominated in United States dollars totaled US$10,676,000 in 2006 and US$3,812 000 in 2005.

The Company does not possess nor issue financial derivative instruments.

## *Note 18.* Related party transactions

During the year, the Company entered into the following transactions with some of its directors in the normal course of operations:

| | **2006** | 2005 |
|---|---|---|
| Consulting fees to directors | **$ 120** | $208 |
| Fees to directors | **241** | 187 |
| | **$ 361** | $395 |

These transactions were measured at the exchange amount.

(In thousands of Canadian dollars except for number of shares or as otherwise specified)

# *Note 19.* Income taxes

The following table reconciles the differences between the domestic statutory tax rate and the effective tax rate used by the Company in the determination of the income tax expenses:

| | **2006** | 2005 |
|---|---|---|
| Net loss | **$(30,459)** | $(22,932) |
| Basic income tax rate | **32%** | 31% |
| Computed income tax provision | **(9,747)** | (7,109) |
| Decrease (increase) in income taxes resulting from: | | |
| Unrecorded potential tax benefit arising from current period losses | **5,866** | 4,876 |
| Effect of tax rate differences in foreign subsidiaries | **3,671** | 990 |
| Non-taxable items | **209** | 2,275 |
| Change in tax rate | **1** | (1,032) |
| | **$–** | $– |

Significant components of the Company's net future income tax balances are as follows:

| | **2006** | 2005 |
|---|---|---|
| Future income tax assets (a): | | |
| Losses carried forward | **$13,931** | $14,963 |
| Share issue expenses | **800** | 1,056 |
| Unused research and development expenses | **5,550** | 4,691 |
| Accounts payable and accrued liabilities | **951** | 1,035 |
| Deferred revenue | **–** | 9 |
| Capital assets | **141** | 122 |
| | **21,373** | 21,876 |
| Less: valuation allowance | **(21,066)** | (21,127) |
| Net future income tax assets | **307** | 749 |
| Future income tax liabilities: | | |
| Capital assets | **(50)** | (76) |
| Licenses and patents | **(257)** | (673) |
| Deferred development costs | **–** | – |
| Net future income tax assets | **$–** | $– |

a) During the year, the income tax assets on cumulative losses for the Isle of Man subsidiary were decreased to nil following a reduction of the tax rate from 10% to 0%. Consequently the valuation allowance was decreased of a similar amount.

*Note 19. Income taxes (cont.)*

As at December 31, 2006, the Company had available the following deductions, losses and credits:

| | Canada | | Foreign |
|---|---|---|---|
| | Federal | Provincial | countries |
| Research and development expenses, without time limit | $ 14,349 | $ 23,423 | $ – |
| Losses carried forward expiring in: | | | |
| 2007 | 2,095 | 2,336 | – |
| 2008 | 3,976 | 3,880 | – |
| 2009 | 5,332 | 5,152 | – |
| 2010 | 5,666 | 5,073 | – |
| 2011 | – | – | 379 |
| 2012 | – | – | 1,163 |
| 2014 | 2,472 | 2,079 | – |
| 2015 | 1,128 | 607 | – |
| 2018 | – | – | 434 |
| 2020 | – | – | 14 |
| 2021 | – | – | 594 |
| 2023 | – | – | 939 |
| 2024 | – | – | 1,380 |
| 2025 | – | – | 935 |
| 2026 | 10,219 | 9,026 | 1,366 |
| Share issue expenses | 2,355 | 2,355 | – |
| | 33,243 | 30,508 | 7,204 |

As at December 31, 2006, the Company also had unused federal tax credit available to reduce future Canadian taxable income in the amount of $4,033 and expiring between 2009 and 2026. Those tax credits have not been recorded and no future income tax liability has been recorded with respect to those tax credits.

(In thousands of Canadian dollars except for number of shares or as otherwise specified)

## *Note 20.* Additional information on the consolidated statement of cash flows

| | | 2006 | 2005 |
|---|---|---|---|
| **a)** | **Change in working capital items:** | | |
| | Accounts receivable | **$ 520** | $ (100) |
| | Inventories | **(288)** | (1,014) |
| | Prepaid expenses | **(129)** | 271 |
| | Accounts payable and accrued liabilities | **(397)** | 843 |
| | Provision related to a lawsuit | **163** | 206 |
| | Deferred revenue | **2,199** | (243) |
| | | **$ 2,068** | $ (37) |
| **b)** | **Non-cash transactions:** | | |
| | Unpaid additions to capital assets and licenses and patents | **37** | 193 |
| | Excess of the interest in the joint venture PRDT over the proportionate share in the consolidated net assets | **2** | 662 |
| | Preferred shares retractable at the holder's option | **2** | 662 |
| | Unpaid share issue expenses | **204** | 205 |
| | Unpaid deferred financing expenses | **789** | – |
| | Shares of Hemosol Corp. received as consideration of acceptance of milestone | **–** | 3,000 |
| **c)** | **Other cash flow information:** | | |
| | Interest paid | **6,172** | 412 |
| | Interest earned | **295** | 101 |

## *Note 21.* Segmented information

During the year, the Company pursued a corporate reorganization resulting in the creation of four distinct business units functioning independently in terms of management, funding of operations and development of specific products and services. The four business units are as follows :

**Therapeutics:** This unit has two lead compounds, PBI-1402 and PBI-1393, progressing in clinical trials, both of which address unmet needs of cancer patients undergoing chemotherapy.

**BioTherapeutics:** It is the developer of a unique, validated, state-of-the-art solution for plasma fractionation, the Plasma Protein Purification System (PPPS).

**Bioseparation:** It develops and markets bioseparation products based on applications of its patented Mimetic Ligand™ technology

**BSafE:** This unit has in-licensed the veterinary applications of ProMetic's PRDT. The long term goal of BSafE is to use the validated PRDT technology for prion reduction in the search for a diagnostic that would certify live cattle as BSE-tested.

*Note 21. Segmented information (cont.)*

**a) Revenues and expenses by business unit:**
For the year ended December 31, 2006

| | Therapeutics | BioTherapeutics | Bioseparation | BSafE | Corporate | Interunit transactions | Total |
|---|---|---|---|---|---|---|---|
| Revenues | **–** | **–** | **3,326** | **–** | **–** | **(679)** | **2,647** |
| Research and development expenses | **4,223** | **4,017** | **7,679** | **–** | **–** | **(631)** | **15,288** |
| Administration, marketing and other | **–** | **–** | **1,208** | **316** | **6,492** | **(15)** | **8,001** |
| Depreciation and other expenses | **216** | **206** | **956** | **–** | **7,469** | **970** | **9,817** |
| Net loss | **4,439** | **4,223** | **6,517** | **316** | **13,961** | **1,003** | **30,459** |

For the year ended December 31, 2005

| | Therapeutics | BioTherapeutics | Bioseparation | BSafE | Corporate | Interunit transactions | Total |
|---|---|---|---|---|---|---|---|
| Revenues | 4,002 | – | 4,307 | – | – | (257) | 8,052 |
| Research and development expenses | 3,623 | 457 | 9,562 | – | – | (304) | 13,338 |
| Administration, marketing and other | – | – | 988 | – | 5,787 | (33) | 6,742 |
| Depreciation and other expenses | 6,576 | – | 3,141 | – | 550 | 637 | 10,904 |
| Net loss | 6,197 | 457 | 9,384 | – | 6,337 | 557 | 22,932 |

(In thousands of Canadian dollars except for number of shares or as otherwise specified)

*Note 21. Segmented information (cont.)*

**b) Revenues by geographic segment [1]:**

| | **2006** | 2005 |
|---|---|---|
| Canada | **$ –** | $ 4,340 |
| United States | **926** | 1,028 |
| United Kingdom | **547** | 491 |
| Europe (excluding United Kingdom) | **1,155** | 2,171 |
| Other countries | **19** | 22 |
| | **$ 2,647** | $ 8,052 |

(1)Revenues are attributed to countries based on location of customer and not on location of subsidiaries.

The Company derives significant revenue from certain customers. In 2006 there were two customers who individually accounted for 25% and 22% of revenues respectively. In 2005, two customers represented 52% and 12% respectively.

**c) Assets by business unit:**

| | **2006** | 2005 |
|---|---|---|
| Therapeutics | **$ 9,197** | $ 10,688 |
| BioTherapeutics | **2,520** | 28 |
| Bioseparation | **10,167** | 8,699 |
| Corporate | **27,455** | 17,942 |
| Interunit transactions | **(8,612)** | (7,561) |
| | **$ 40,727** | $ 29,796 |

**d) Assets by geographic segment:**

| | **2006** | 2005 |
|---|---|---|
| Canada | **$ 28,329** | $ 21,344 |
| United States | **2,583** | 147 |
| United Kingdom | **9,815** | 8,305 |
| | **$ 40,727** | $ 29,796 |

**e) Capital assets and licenses and patents by business units:**

| | **2006** | 2005 |
|---|---|---|
| Therapeutics | **$ 2,087** | $ 2,082 |
| Biotherapeutics | **1,156** | 28 |
| Bioseparation | **4,577** | 5,167 |
| Corporate | **196** | 299 |
| Interunit transactions | **1,910** | 2,846 |
| | **$ 9,926** | $ 10,422 |

**f) Capital assets and licenses and patents by geographic segment:**

| | **2006** | 2005 |
|---|---|---|
| Canada | **$ 3,407** | $ 4,558 |
| United States | **1,201** | 114 |
| United Kingdom | **5,318** | 5,750 |
| | **$ 9,926** | $ 10,422 |

## *Note 22.* Government grants

The Company has received government grants from the Isle of Man Government for operating and capital expenditures.

For grants received prior to 2004, the Isle of Man Government reserves the right to reclaim $275 in part or all of the grants should the Company leave the Isle of Man within five years of receipt or should certain events occur within five years of receipt. The terms for the grants received amounted to $67 in 2006 and $1,108 in 2005. They are fully repayable if ProMetic BioSciences Ltd leaves the Isle of Man within five years of receipt of the grant and thereafter repayable on a sliding scale for up to a period of ten years.

No provision has been made in these financial statements for any future repayment to the Isle of Man Government relating to the above agreement.

## *Note 23.* Contingencies

Following the introduction in September 2000 of a claim for damages at the Superior Court by ProMetic Life Sciences Inc. ("PLI") and ProMetic BioSciences Inc. ("PBI"), a subsidiary of PLI, against a supplier for an amount of $7,726. The supplier has introduced in April 2004 a cross demand against PLI and PBI claiming for payment as damages of all profits realized from the sale of Agarose Beads between October 18, 1999 and October 18, 2004.

After obtaining representation from their legal advisers, Management is of the opinion that it has valid grounds for defense and no provision related to this matter has been recorded in these consolidated financial statements in that respect. Settlements, if any will be charged to the statement of operations in the period in which the settlements occurs.

## *Note 24.* Comparative figures

Certain 2005 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2006.

# Board of Directors

**G.F. Kym Anthony**[2] [3]
President and Chief Executive Officer
Dundees Securities Corporation

**John Bienenstock**
Physician, Scientist and Consultant
Distinguished University Professor
McMaster University
Director, Brain-Body Institute
St. Joseph's Healthcare Hamilton

**Roger D. Garon**[1] [2]
Chairman of the Board
Multivet Ltd., a Veterinary
Products Company

**Barry H. Gibson**
Owner
Aroma-Tec Industries Inc.

**Branco Jankovic**[1] [2]
Consultant

**Robert Lacroix**[1] [3]
Senior Vice-President
CTI Capital Inc.

**Pierre Laurin**
Chairman of the Board,
President and Chief Executive Officer,
ProMetic Life Sciences Inc.

**Benjamin Wygodny**[3]
President
Angus Partnership Inc.

(1) Audit Committee
(2) Compensation Committee
(3) Corporate Governance Committee

# Management

**Pierre Laurin**
Chairman of the Board,
President and
Chief Executive Officer
ProMetic Life Sciences Inc.

**Lucie Morin**
Vice-President, Human Resources
ProMetic Life Sciences Inc.

**Stéphane Archambault**
Vice-President, Finance
ProMetic Life Sciences Inc.

**Mark Bandrauk**
General Counsel and
Corporate Secretary
ProMetic Life Sciences Inc.

**Steven J. Burton**
Chief Executive Officer
ProMetic BioSciences Ltd

**Christopher Bryant**
Executive Vice-President
and COO
ProMetic BioTherapeutics, Inc.

**Christopher L. Penney**
Vice-President & Chief
Scientific Officer, Therapeutics
ProMetic BioSciences Inc.

# External Scientific Collaborators

In 2006, the Company relied on a network of well-recognized scientists with expertise in different areas such as biotechnology, bioprocessing and biopharmaceuticals:

**Enabling Technology**

**John C. Curling**, PhD
Independent Consultant

**Barry L. Haymore**, MD, PhD
Consultant,
Microbe Inotech Laboratories Inc

**David J. Stewart**, PhD
Director of Meetings and Courses,
Cold Spring Harbor Laboratory

**Therapeutics**

**Julie Beaudet**, MD
Oncologist, Maisonneuve-Rosemont Hospital

**Martine Garreau**, MD, M.Sc.
Managing Director, GMG Life Sciences

**Jean Marsac**, MD, PhD
President, H2I SA

**Denis Claude Roy**, MD
Hematologist, Associate Professor of
Medicine at the University of Montréal
Director, Cellular Therapy Laboratory
at Maisonneuve-Rosemont Hospital

**Pathogen Removal and Diagnostic Technologies Inc.**

**Ruben G. Carbonell**
Director of the William R. Kenan
Junior Institute for Engineering
Technology and Science,
North Carolina University

**David J. Hammond**, PhD
Executive Director, R&D,
Plasma Derivatives, American Red Cross

**Robert G. Rohwer**, PhD
Director, Molecular Neurovirology
Laboratory, VA Maryland
Health Care System International
authority in the field of the TSE

**ProMetic BioTherapeutics, Inc.**

**Ruben G. Carbonell**, PhD
Director of the William R. Kenan
Junior Institute for Engineering
Technology and Science,
North Carolina University

**John C. Curling**, PhD
Independent Consultant

**David J. Hammond**, PhD
Executive Director, R&D,
Plasma Derivatives,
American Red Cross

# Additional Information

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*On peut se procurer la version française du présent rapport annuel en s'adressant au Service des communications de ProMetic Sciences de la Vie inc.:*
*8168, chemin Montview*
*Mont-Royal, Québec H4P 2L7*
*Canada*

Vous le trouverez aussi sur notre site Internet à l'adresse : **www.prometic.com**

**Auditors**

**Raymond Chabot Grant Thornton**
600 de La Gauchetière Street West, Suite 1900
Montreal, Quebec H3B 4L8
Canada

**Transfer Agent and Registrar**

Computershare Trust Company of Canada
1500 University Street, Suite 700
Montreal, Quebec H3A 3S8
Canada

**Listings**

Toronto Stock Exchange (PLI)
Outstanding shares as at December 31, 2006:
234,670,814

**Annual Meeting Of Shareholders**

Wednesday, May 2, 2007 at 10:30 a.m. (EST)
Montreal Museum of Fine Arts
1379, Sherbrooke Street West,
Montreal, Quebec H3G 2T9
Canada

**Annual Information Form**

The 2006 Annual Information Form of ProMetic Life Sciences Inc. is available upon request from the Company's head office.

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Scale-up and manufacturing
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Email: Info@prometic.com

Cambridge, UK
R&D Group – Enabling technology
Tel.: 44 1223 420 300

**ProMetic BioSciences, USA. Inc.**
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**ProMetic BioTherapeutics, Inc.**
Gaithersburgh, Maryland
Plasma Protein Therapeutics
Tel.: (301) 212-2864

We would like to thank all the ProMetic employees who contributed to this annual report.

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